

104/ THE FUTURE OF THE ASIA-PACIFIC ECONOMIC
COOPERATION FORUM [APEC]

Y 4. IN 8/16:AS 4/5

The Future of the Asia-Pacific Econ...

JOINT HEARING
BEFORE THE
SUBCOMMITTEES ON
INTERNATIONAL ECONOMIC POLICY AND TRADE
AND
ASIA AND THE PACIFIC
OF THE
COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES
ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

JULY 18, 1995

Printed for the use of the Committee on International Relations



SUPERINTENDENT OF DOCUMENTS
DEPOSITORY
FEB 11 1996

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1995

20-450 CC

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-052159-9

THE FUTURE OF THE ASIA-PACIFIC ECONOMIC
COOPERATION FORUM [APEC]

4. IN 8/16: AS 4/5

e Future of the Asia-Pacific Econ...

HEARING
BEFORE THE
SUBCOMMITTEES ON
INTERNATIONAL ECONOMIC POLICY AND TRADE
AND
ASIA AND THE PACIFIC
OF THE
COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES
ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

JULY 18, 1995

Printed for the use of the Committee on International Relations



SUPERINTENDENT OF DOCUMENTS
DEPOSITORY

FEB 11 1996

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1995

20-450 CC

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-052159-9

COMMITTEE ON INTERNATIONAL RELATIONS

BENJAMIN A. GILMAN, New York, *Chairman*

WILLIAM F. GOODLING, Pennsylvania
JAMES A. LEACH, Iowa
TOBY ROTH, Wisconsin
HENRY J. HYDE, Illinois
DOUG BEREUTER, Nebraska
CHRISTOPHER H. SMITH, New Jersey
DAN BURTON, Indiana
JAN MEYERS, Kansas
ELTON GALLEGLY, California
ILEANA ROS-LEHTINEN, Florida
CASS BALLENGER, North Carolina
DANA ROHRABACHER, California
DONALD A. MANZULLO, Illinois
EDWARD R. ROYCE, California
PETER T. KING, New York
JAY KIM, California
SAM BROWNBAC, Kansas
DAVID FUNDERBURK, North Carolina
STEVEN J. CHABOT, Ohio
MARSHALL "MARK" SANFORD, South
Carolina
MATT SALMON, Arizona
AMO HOUGHTON, New York

LEE H. HAMILTON, Indiana
SAM GEJDENSON, Connecticut
TOM LANTOS, California
ROBERT G. TORRICELLI, New Jersey
HOWARD L. BERMAN, California
GARY L. ACKERMAN, New York
HARRY JOHNSTON, Florida
ELIOT L. ENGEL, New York
ENI F.H. FALEOMAVAEGA, American
Samoa
MATTHEW G. MARTINEZ, California
DONALD M. PAYNE, New Jersey
ROBERT E. ANDREWS, New Jersey
ROBERT MENENDEZ, New Jersey
SHERROD BROWN, Ohio
CYNTHIA A. MCKINNEY, Georgia
ALCEE L. HASTINGS, Florida
ALBERT RUSSELL WYNN, Maryland
MICHAEL R. McNULTY, New York
JAMES P. MORAN, Virginia
VICTOR O. FRAZER, Virgin Islands (Ind.)

RICHARD J. GARON, *Chief of Staff*

MICHAEL H. VAN DUSEN, *Democratic Chief of Staff*

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE

TOBY ROTH, Wisconsin, *Chairman*

JAN MEYERS, Kansas
DONALD A. MANZULLO, Illinois
SAM BROWNBAC, Kansas
STEVEN J. CHABOT, Ohio
DANA ROHRABACHER, California
DOUG BEREUTER, Nebraska
CASS BALLENGER, North Carolina

SAM GEJDENSON, Connecticut
MATTHEW G. MARTINEZ, California
MICHAEL R. McNULTY, New York
ROBERT G. TORRICELLI, New Jersey
HARRY JOHNSTON, Florida
ELIOT L. ENGEL, New York

EDMUND B. RICE, *Subcommittee Staff Director*

JOHN SCHEIBEL, *Democratic Professional Staff Member*

CHRISTOPHER HANKIN, *Professional Staff Member*

ALEXANDER Q. SCHMITZ, *Staff Associate*

SUBCOMMITTEE ON ASIA AND THE PACIFIC

DOUG BEREUTER, Nebraska, *Chairman*

EDWARD R. ROYCE, California
DANA ROHRABACHER, California
JAMES A. LEACH, Iowa
JAY KIM, California
MARSHALL "MARK" SANFORD, South
Carolina
DAN BURTON, Indiana
DONALD A. MANZULLO, Illinois

HOWARD L. BERMAN, California
ENI F.H. FALEOMAVAEGA, American
Samoa
SHERROD BROWN, Ohio
ROBERT E. ANDREWS, New Jersey
SAM GEJDENSON, Connecticut
GARY L. ACKERMAN, New York

MICHAEL P. ENNIS, *Subcommittee Staff Director*

RICHARD KESSLER, *Democratic Professional Staff Member*

DAN MARTZ, *Professional Staff Member*

JON J. PETERSON, *Staff Associate*

CONTENTS

WITNESSES

Hon. Joan E. Spero, Under Secretary of State for Economic, Business and Agricultural Affairs, U.S. Department of State	Page 4
Hon. Charlene Barshefsky, Deputy U.S. Trade Representative, Office of the U.S. Trade Representative	6
Dr. Paula Stern, president, Stern Group, Inc.	23
Mr. Richard O. Lehmann, chairman, National Association of Manufacturers—Asia Working Group	28
Dr. Mark Borthwick, chairman, International Coordinating Group of the Pacific Economic Cooperation Council	29

APPENDIX

Prepared statements and biographical sketches:	
Hon. Toby Roth, chairman, Subcommittee on International Economic Policy and Trade	37
Hon. Joan E. Spero	39
Hon. Charlene Barshefsky	47
Dr. Paula Stern	55
Mr. Richard O. Lehmann	70
Dr. Mark Borthwick	76
Additional Material Submitted for the Record:	
Statement from the Government of Australia	95

THE FUTURE OF THE ASIA-PACIFIC ECONOMIC COOPERATION FORUM [APEC]

TUESDAY, JULY 18, 1995

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS, SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE,
AND SUBCOMMITTEE ON ASIA AND THE PACIFIC,

Washington, DC.

The subcommittees met, pursuant to call, at 2:10 p.m. in room 2200, Rayburn House Office Building, Hon. Doug Bereuter (chairman of the Subcommittee on Asia and the Pacific) presiding.

Mr. BEREUTER. The subcommittees will come to order. I am Congressman Doug Bereuter, chairman of the Asia-Pacific Subcommittee.

First of all, I want to apologize for not having more room for our hearing today. Unfortunately the major hearing room for the committee is occupied by a hearing right now on the women's conference in Beijing, which also drew standing-room-only crowds.

We do have a vote just being completed on the House floor, but I think it is important to begin to expedite our proceedings here so we can give a full amount of time to the witnesses for their presentations.

I will make my opening remarks. We may recess briefly until a couple of the other members arrive and then move to our witnesses.

Today's hearing is a joint hearing; the Subcommittees on Asia and the Pacific and International Economic Policy and Trade.

On February 2, 1995, our two subcommittees held a joint hearing on trade and economic prospects in the Asia-Pacific region.

During that hearing, Chairman Roth and this member and our subcommittee members learned that while U.S. merchandise exports to the region have tripled in the last decade, U.S. merchandise imports have grown even faster.

The 1994 estimated U.S. trade deficit with the Asia-Pacific region is expected to surpass an astounding \$125 billion. This figure represents a full 80 percent of the total projected worldwide U.S. trade deficit of \$154 billion.

While United State trade deficits with the Asia-Pacific region are the result of many factors, including great discrepancies and savings rates between the United States and our Asian competitors and trading partners, the burgeoning trade deficits with nearly every Asian country have led many people to conclude that the United States has an Asian problem with respect to trade.

One of the Administration's most ambitious strategies to deal with the United States' chronic trade deficits is trade liberalizations through APEC.

Last year, at the APEC leaders meeting in Bogor, Indonesia, 18 APEC leaders committed to free trade in the region by 2010 for developed countries and 2020 for developing ones.

In this member's view, that goal is laudable, and it is also ambitious. As one of the most open economies in the world, the United States must continuously and aggressively attempt to open foreign markets to U.S. goods and services.

In the context of APEC, that means the elimination of tariff and non-tariff barriers for all APEC countries by the year 2020.

Unfortunately, non-tariff trade barriers in both developed and developing countries within APEC loom ominously as indicators of APEC's enormous challenge to create real trade liberalization in the most dynamic economic region in the world.

Intransigence in this area on the part of some important Asian economies has produced many APEC skeptics who argue that APEC is not an important step in addressing America's trade woes.

Nevertheless, countries such as Australia and Canada with similar trade deficit problems are, like the United States, investing a great deal of effort in making APEC work.

Today's hearing is an attempt to discern whether the United States' investment in APEC is worthwhile and to determine what role Congress serves in helping U.S. goods and service producers to compete in the Asia-Pacific region.

Today we are extremely fortunate to have two key APEC policy-makers on our first panel; the Honorable Joan Spero, Under Secretary of State for Economic, Business and Agricultural Affairs and the Honorable Charlene Barshefsky, Deputy U.S. Trade Representative.

Under Secretary Spero came to the government with extensive private sector and academic experience. Before assuming her current position on April 2, 1993, Mrs. Spero was executive vice-president of corporate affairs in communications at American Express.

She taught for 6 years at Columbia University and has written and lectured widely on international economic issues. Mrs. Spero graduated as Phi Beta Kappa from the University of Wisconsin and holds a doctorate from Columbia University.

Ambassador Barshefsky, who has testified several times before these subcommittees, was appointed as Deputy U.S. Trade Representative in May 1993.

Her responsibilities include the Asia-Pacific region, Latin America, intellectual property, investment and sectoral areas.

Through Asia, Ambassador Barshefsky has pursued bilateral and multilateral trade agreements and negotiations to increase our market access. She was, for example, the lead negotiator at the recent United States-Sino IPR agreement in March.

After our first panel, we will look forward to hearing from three distinguished private witnesses. I think I will introduce them at this time to expedite our proceedings.

The Honorable Paula Stern, former chairwoman of the International Trade Commission and president of the Stern Group, an economic analysis and trade advisory firm.

Dr. Mark Borthwick, chairman of the International Coordinating Group of the Pacific Economic Cooperation Council.

Mr. Richard Lehmann, director of Public Affairs at IBM and chairman of the Asia Trade Group of the National Association of Manufacturers.

I am going to recess about 2 minutes, 3 minutes maximum at this point to see if, in fact, the chairman and the ranking members of the two subcommittees arrive, in addition to myself.

Just rest at ease for about a minute or two. I would like to have them hear your full testimony.

[Recess.]

Mr. BEREUTER. I would recognize the distinguished gentleman from California, Mr. Dana Rohrabacher.

Mr. ROHRABACHER. I guess while we are waiting for the rest of the members to come back, I will say just a couple of words.

I believe that there has been too much focus not only in this administration, but also the administration prior to this administration, on what has been going on and what was going on in Europe.

There is a Eurocentricism to American foreign policy. I think it has worked against the United States of America in this century.

Where the history of the world is being made is in the Pacific. History is being made where new wealth is being created. That is the way it always has been in world history.

Today, Europe and to that degree Europe and Eurasia, where the former Soviet Union is now trying to figure out what is going on with their peoples, that area of the world is going to be less important to the future of our planet, in terms of peace and prosperity, for the American people, than is what is happening in Asia.

I am very pleased with the chairman and the other members of this committee who have recognized that fact. Mr. Chairman, I have spent a lot of time in that part of the world and look forward to working with you to make sure that the United States becomes what it should be.

An Asian power and an Asian focused country, because that is where our people's lives will be improved. That is where the security of our country will be attained.

Thank you very much.

Mr. BEREUTER. Thank you very much, Mr. Rohrabacher.

Mrs. Meyers, we are waiting for Chairman Roth. If you have any opening statement.

Mrs. MEYERS. No statement.

Mr. BEREUTER. All right. In light of that, I would like to proceed. Under Secretary Spero and Ambassador Barshefsky, your written testimony will be made a part of the record.

You may summarize your statements or proceed in any manner you wish. To facilitate a mutually beneficial dialog between us, the Chair would ask if you can summarize and limit your statements to about 10 minutes each. Somewhere in that area.

We very much appreciate your attendance and your testimony here today. We look forward to your comments and then an opportunity to raise some questions or points with you.

Under Secretary, if you would like to proceed, we would welcome your testimony.

STATEMENT OF HON. JOAN E. SPERO, UNDER SECRETARY OF STATE FOR ECONOMIC, BUSINESS AND AGRICULTURAL AFFAIRS, U.S. DEPARTMENT OF STATE

Mrs. SPERO. Thank you. Thank you, Mr. Chairman and members of the committee. I am glad to have this opportunity to talk about U.S. policy toward APEC, the Asia-Pacific Economic Cooperation.

As you suggest, Mr. Chairman, I will summarize my remarks in I hope less than 10 minutes.

The Asia-Pacific is one of the most economically dynamic regions of the world. It accounts for 41 percent of world trade and half of world output.

It is also the fastest growing region in the world. By the end of this century, one half of world trade will take place in the Asia-Pacific.

U.S. business needs to be part of this explosive economic development. Already one-third of U.S. exports supporting nearly \$2.7 million American jobs are destined for East Asian markets.

We must meet both the immense challenges and the immense opportunities in the region's dynamism. U.S. business is doing its part by becoming more competitive, but government also has a role to play.

The Clinton Administration is committed to ensuring that U.S. economic interests are fully integrated in the development and implementation of our foreign policy.

We are trying to carry out that mission in 3 principal ways. First, we are committed to global economic engagement and to building and modernizing the economic architecture for the post cold war world.

We are aiming for an international system that is more open or market oriented and that promotes world prosperity and world peace.

The new world trade organization is a central pillar of the administration's policy of international economic engagements.

The world's monetary and development institutions are also critical parts of our global architecture. At the June G-7 summit in Halifax, we took important steps toward modernizing these financial institutions.

On the bilateral front, we continue to level the playing field and to provide new opportunities for our companies and our workers through efforts in the United States-Japan framework talks, market access discussions with China and formal economic dialogs with key Asian economies like Korea, Taiwan, Thailand and India.

Mr. Chairman, we also need regional approaches to expand business opportunities, promote economic growth and secure benefits for the American people.

Regional policies help to ensure that U.S. business is firmly rooted in those dynamic parts of the world that are so important to our economic future.

In Asia, our efforts to build a new architecture have centered on the Asia-Pacific Economic Cooperation forum. APEC first met in Australia in 1989 as an informal economic dialog among 12 member economies.

Beyond a general economic focus, the group had no stated mission or goal. But, we have come a long way since then.

APEC has expanded from 12- to 18-member economies. Collectively, APEC's members represented one-half of the world's people and one-half of its annual economic output.

APEC now has a structure; a small secretariat in Singapore; a policymaking process capped by annual leaders meetings and most importantly in terms of day-to-day business needs, 3 committees and 10 active working groups.

Mr. Chairman, the U.S. contribution to APEC's annual budget is only \$580,000. I think it is one of the best deals we have for the American taxpayer.

APEC also has a customer. APEC is not for governments. It is for business. Through APEC, we aim to get governments out of the way, opening the way for business to do business.

It is our goal to make APEC the most user-friendly forum in the world. That is why business participates in APEC's working groups.

That is why APEC established a business advisory group, the Pacific Business Forum, to advise APEC leaders on business priorities and to provide a vision for APEC's future. That is why increasing the role for the private sector in APEC is a key objective for this year's meeting in Japan.

Much of APEC's most important work, in terms of solving practical daily business needs, takes place in the activities of its 10 working groups.

For example, APEC's working groups have published customs, investment, telecommunications and transportation guides. The guides provide information, which make regional regimes and regulatory environments more transparent, especially for small- and medium-sized companies.

APEC will use these guides to analyze best practices, identify bottlenecks and work toward harmonization of standards and regimes.

APEC reached a turning point with President Clinton's hosting of the first-ever APEC economic leaders meeting at Blake Island off Seattle in 1993.

With that meeting, APEC developed a guiding vision; a commitment to more open trade and investment and the concept of open regionalism.

At their meeting last year in Indonesia, leaders gave life to the vision by calling for the achievement of free and open trade in the Asia-Pacific by the year, as you have mentioned, Mr. Chairman, 2020.

Now, APEC members are working on an action agenda for the leaders to review at their meeting in Osaka this November. We expect the agenda to include some initial liberalization steps, progress in lowering some business transaction costs.

For example, we expect announcements on streamlining customs procedures and we expect a blueprint for free and open trade and investment.

This blueprint would go beyond tariff reductions to address broader non-tariff and structural barriers in the region.

We also hope that APEC leaders in November will endorse establishment of a new, permanent business sector advisory body for

APEC. We want business to provide the expertise and views necessary for APEC to define its objectives and focus its work.

In conclusion, Mr. Chairman, APEC is a work in progress, one which provides a platform for achieving genuine economic integration in the region, based on market-driven forces.

We look forward to working with American business and the Congress in developing APEC as a key building block of that community.

Thank you.

[The prepared statement of Mrs. Spero appears in the appendix.]

Mr. BEREUTER. Thank you very much for your testimony.

I would like to interrupt our testimony at this point to recognize my colleague, the Chairman of the International Economic Policy and Trade Subcommittee.

Since we are doing this hearing jointly, I recognize my colleague, Toby Roth.

Mr. ROTH. Thank you, Chairman Bereuter. I have an opening statement, but let me ask to put that into the record so that we can go and listen to the other testimony and go right to the questions.

[The prepared statement of Mr. Roth appears in the appendix.]

Mr. BEREUTER. Thank you very much. We appreciate that.

Mr. ROTH. I would like to add I appreciate having such a good turnout from our subcommittee at this hearing today, too, because this is some of the most important work we can be doing.

Mr. BEREUTER. Thank you very much.

Ambassador Barshefsky, we look forward to your testimony. Please proceed as you wish.

STATEMENT OF HON. CHARLENE BARSHEFSKY, DEPUTY U.S. TRADE REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mrs. BARSHEFSKY. Thank you, Mr. Chairman and Chairman Roth.

It is a pleasure to be here today to talk about APEC. APEC is a key initiative of this administration in furthering U.S. interests in the Asia-Pacific region, which is the fastest growing region in the world.

APEC itself, as Under Secretary Spero has said, is composed of 18 of the world's most dynamic and diverse economies. Our relationship with them represents an important part of our economic future.

China's growth rate in 1994 was 12 percent; Malaysia's, 8½ percent; Korea's growth rate, 8 percent.

Several of the world's most populous countries, China, Indonesia, Japan and Mexico, are also represented in APEC. All APEC nations have growing middle classes and rapidly improving levels of education.

The growth and dynamism of the APEC region has led to an explosion of trade with the United States. East Asia is the No. 1 export market for U.S. products. United States merchandise exports to APEC countries totaled \$304 billion in 1994, 60 percent of total U.S. merchandise exports.

Last year, our exports to APEC nations grew by about 15 percent. Export growth this year is expected to exceed 17 percent.

One recent projection shows that Asia, excluding Japan, will be our largest export market by the year 2010, amounting to roughly \$250 billion in U.S. exports.

Despite these figures and they are promising and dramatic, APEC economies also represent the countries with which we have our most substantial trade deficits and our most significant trade problems.

Over 85 percent of our global trade deficit in 1994 was with APEC nations and most of that deficit is with Japan and China.

For this reason, while APEC does not replace bilateral or multi-lateral initiatives, we believe it is an important complement to our desire to open markets, expand trade and increase global growth and U.S. standards of living.

In my testimony, I will focus today on APEC's current work on trade and investment issues. Let me touch a moment on APEC's history.

As Under Secretary Spero has said, APEC existed since 1989. In 1993, President Clinton provided extremely bold leadership and a new direction for APEC by hosting the first-ever APEC Leaders' Meeting.

This meeting was critical to evolving APEC's role as an institution committed to trade investment, facilitation and liberalization, not just a talk shop.

In 1994, President Soeharto of Indonesia built upon the groundwork laid by President Clinton by encouraging the leaders to agree to the explicit goal of free and open trade and investment in the region by the year 2010 for developed economies and 2020 for developing.

This November in Osaka, APEC will outline some of the substance of the processes for reaching this central free trade and investment goal.

Although the preparatory work has not yet been completed, we believe several key steps will be taken at Osaka.

First, a mid- to long-term plan for achieving free and open trade and investment in the region. That is the action agenda. Second, concrete business facilitation steps in such areas as customs, standards, telecom and transportation.

Let me spend a moment on the action agenda, which is the focal point. We think that the action agenda will likely include 3 elements.

First, key principals that will guide APEC's liberalization effort. Second, specific liberalization steps that APEC members will take over time to achieve the goal of free and open trade. Third, some indication of the approaches and processes to be used by which all of these steps will be implemented.

Let me take each of these in turn. The broad principals of importance to the United States that are likely to be included in the action agenda include the following:

First, WTO and GATT consistency. That APEC arrangements will be consistent with the WTO and will strengthen the multilateral trading system.

Second, a common start date and continuous contribution. That is, that all APEC members will begin the liberalization process together and they will continue to contribute to that trade liberalization throughout the period.

Third, comparability. Offers of trade liberalization will be conditioned on achieving a balance of concessions by all APEC members.

Fourth, monitoring. That the action agenda and the progress made toward its implementation will be subject to ongoing review.

With respect to the substance of the action agenda, we have consulted with the Congress and with our private sector advisors.

On the basis of these consultations, in order to achieve the goal of free and open trade in the region, the United States is encouraging APEC to include in the action agenda a broad range of issues.

That is, a very broad scope for liberalization, not just tariffs. Not just non-tariff measures, but also investment, standards, customs, services, intellectual property rights, government procurement, deregulation, competition policy, dispute mediation, rules of origin, human resources development, the environment, energy and action taken to help the export potential of smaller- and medium-sized business, which is a significant issue in our own country.

For each of these issue areas, of which there are about 15 or 16, we are also advocating that the action agenda include mid- to long-term objectives.

That is, what is the APEC vision of free and open trade in that particular subject area, whether it is investment or procurement. What is the vision?

Second, what are the key milestones to getting toward that vision. What kind of liberalization do we expect to see?

In procurement, for example, we would want to have a significant milestone, full transparency of member government's procurement regimes, which is certainly not now the case.

Third, what are the concrete steps each member government will take toward reaching those milestones and reaching that vision. We are pushing APEC in this very practical, concrete direction.

With respect to the processes, how does all of this get implemented? There are a variety of different views in APEC and there are no firm conclusions, except to say this.

There are going to have to be many different kinds of modalities and processes by which offers are made or negotiated or reconciled, balance achieved and so on.

How those processes unfold, I think will depend on where we are in this period, 1996 to the year 2010. Suffice it to say, from the point of view of the United States, we would welcome any and all process suggestions to ensure that our goals of free and open trade in the region are fulfilled.

Let me say in conclusion, Messrs. Chairmen, that the APEC leaders last year in Indonesia presented the member economies with an extraordinary challenge.

The United States has been at the forefront, as it has every year in APEC, toward helping to achieve consensus on the substantive areas and toward reinforcing the necessity for the goal of free and open trade in the region.

While there is broad support by the APEC member economies for the notion of free and open trade and for this very bold vision, the devil is in the details and the details are just now being addressed.

Thank you very much.

[The prepared statement of Mrs. Barshefsky appears in the appendix.]

Mr. BEREUTER. Thank you very much and thanks to both of you for your testimony.

I now turn to questions from my colleagues. Chairman Roth, if you would like to begin.

Mr. ROTH. I thank you Chairman Bereuter. I am somewhat intimidated by these 2 witnesses we have before us, because Mrs. Spero and Mrs. Barshefsky graduated Phi Beta Kappa at the University of Wisconsin.

Mrs. SPERO. Both of us went.

Mr. ROTH. That is fantastic.

Mr. BEREUTER. Both Wisconsin? This is a loaded panel.

Mrs. SPERO. Different years, I might add.

Mr. BEREUTER. So does my staff aide, so we are in trouble.

Mrs. BARSHEFSKY. We expect this fact to be evidenced in the sensitivity of your questions.

Mr. ROTH. I am interested in what is taking place here, because it is necessary to have something like APEC to make the breakthroughs and set up the procedures to get to the ultimate goals that we need.

You were touching on the Osaka summit that is coming up in November. You talked about the modalities and so on, but do you have an overall strategy? Are you going in there with an overall plan?

How do we measure whether this is going to be a success or not?

Mrs. BARSHEFSKY. Right. The APEC process is governed by a series of senior officials meetings. Every government contributes a variety of officials.

The United States early on laid out its notions of the way in which we thought the process should unfold. That is, the notion of an action agenda, which would be quite concrete and quite specific as to the kinds of visions and milestones that we would hope to see all member economies take in the period.

The Japanese government is in the chair of APEC this year. You know it is a rotating chairmanship. They have been very receptive to our ideas, as well as the ideas of a number of other countries that have a similar, quite bold and aggressive vision for what APEC needs to lead to for all of the number economics, not only to maintain credibility of the institution, but as an economic matter.

Through this process of senior officials meetings and through a process of consensus building, we believe that we will achieve the kinds of outcomes that Mrs. Spero and I have talked about.

Mr. ROTH. Would you like to add something, Mrs. Spero?

Mrs. SPERO. Well, I would add that I think this is a very critical year for APEC. Two years ago, the leaders identified this vision as I described it of free trade and investment in the region.

Last year they gave us a date and this year, the challenge is to come up with an action plan, a blueprint, a road map of how we get from here to that vision.

That is exactly what Ambassador Barshefsky is describing. We have been having a series of international meetings of senior officials to try to flesh out this action plan.

I would say that it is going very much in the direction of the thinking that the United States has had and that is, we say it has to be concrete.

So, it should mention specific sectors, not just as Ambassador Barshefsky has said, tariffs, but also intellectual property and government procurement and services and investment, for example. The current draft reflects that approach.

We have also said we think it has to have specific goals, not just, well we are going to work on intellectual property, but what is our goal. What is our vision. What does an adequate intellectual property regime for the region really look like?

Then what we will have to do is flesh in the steps for how we get there. I think we have gone quite a long way. We have a ways to go before Osaka puts in place this action plan. I think that at this point I would say we are fairly well along.

Mrs. BARSHEFSKY. If I might add just a point. If you think about the multilateral rounds we have been involved in, take the Uruguay round. It took 7 years.

It took 3 years before any offers were ever on the table and that is with the background of 40 years of GATT experience behind us.

We have had APEC for 6 years. The visions that we have talked about that the leaders have had have been enunciated in only the last two.

Yet, we are in a position where we believe the major outcome of Osaka will be achieved, which is an action plan with a fair amount of detail as to how this quite extraordinary goal is to be achieved.

Mr. ROTH. Unfortunately, we are interrupted all day long with the votes, but Chairman Bereuter, I just have one more short question.

We are all, as Members of Congress, confronted with a big issue coming Thursday, because you have a vote up on MFN for China.

Now, if you have a view on that, I would like to hear it. If not, that is fine. We are all wrestling with this and we are talking about it in the cloak room. I was just wondering from your perspective what you would advise Congress to do.

Mrs. SPERO. Well, as you know, Mr. Roth and other members of the committee and as Mr. Bereuter knows very well, this is the critical issue this week.

The President has said, the Secretary of State has said that we support continuation of MFN for China. That it is a very important part, not only of our economic interest, but of our foreign policy approach of engagement with China.

At the same time, we understand that Mr. Bereuter and others have been working on a resolution which might be a companion to the MFN vote.

We have been discussing that with staff. We have been working with staff on that. We understand that also might be voted on Thursday.

Mrs. BARSHEFSKY. If I may just add, the issue for the Administration is not, do we accept China's practices with respect to human rights. We emphatically do not accept China's practices with respect to human rights.

Are we concerned about issues of non-proliferation? Yes. We are concerned about issues of non-proliferation. Are we concerned about the trade deficit with China, which is growing at an unacceptable rapid rate? Yes, we are very concerned.

The issue for the Administration is not any dispute with Congress as to those core concerns. It is simply, what is the most effective way of addressing those core concerns.

The President made a decision a year ago that linking MFN to human rights was not going to get us where we would like to see China be on the human rights front. That it was too overt. Too confrontational and the Chinese responded in an extraordinarily negative and nonproductive fashion to it.

Rather, the issue for the administration was to devise a policy that would lead to the broadest possible progress on the broadest array of issues.

That is the policy of engagement, which the administration embarked upon where we saw very significant success in trade, some success on human rights and non-proliferation. We would like that to continue.

Mr. ROTH. Forgive me. I voted for MFN for China before, but I am really concerned. We just have a lot of talk about progress but we never seem to get anywhere.

What are we going to do about Mr. Wu who is an American citizen? Do we not have to have some leverage? Do we not have to show our outrage? Just talking about it is not going to be enough.

Mrs. SPERO. If I may answer that, I think there are a variety of ways that we can address the human rights issue and as Ambassador Barshefsky has said, we do that in a variety of ways.

We do that in bilateral representations to the Chinese government. We do that from the human rights commission. We have a variety of diplomatic ways to express that to China.

At the same time, it has been our belief that the most productive way to achieve those human rights goals is not to link it to specific trade issue.

Rather, we believe that we need to have an active engagement with China in as many areas as possible, where we disagree with them and where we agree with them.

Therefore, we believe that economic engagement is an important part of our overall foreign policy. Finally, we believe that we have an economic interest in this MFN relationship with China and trade with China. So, we do not just do it for China's interest, we do it for our own self interest.

Mr. ROTH. I just wish we had more time, because I do not want to take the time from the other members. This is, I think, a very important point.

When it comes to trade, the Chinese are the people who gain the most, not the United States. We have a huge trade deficit with China. Maybe this is the card that we should be playing.

Mrs. BARSHEFSKY. The question, Mr. Roth, is how to address that trade deficit. We know part of it comes about by a shift from much

larger trade deficits, which we had had with Hong Kong and Taiwan, whose investment has now moved to the mainland, making the China deficit go up, while the deficits of Taiwan and Hong Kong go down.

So, we know part of it is the cause of that. We also know that part of it is a result of trade barriers and we are trying very aggressively to address those barriers and have made some significant progress on market access.

Mr. ROTH. Well, I asked the wrong question. I did not focus it clearly enough. Yes, I am concerned about the trade deficit, but what I am saying is that, we have this MFN card and I think it is very important to play this card, because diplomatic niceties are fine, but they have a huge trade deficit.

They are selling much more of course here than we are selling there and maybe this is the avenue we should be using to tell them how we feel about their human rights and Mr. Wu and so on. Thank you.

Mr. BEREUTER. Thank you, Chairman Roth.

I will give an opportunity to members. I do not want to be pre-occupied with the China MFN here today, because we have a broader agenda.

When I walk over to the floor, I will introduce a bill, not a resolution, for myself, Messrs. Hamilton, Archer, Gibbons, Crane, Matsui, Gallegly, Johnston, Thomas of California, Roemer, Kolbe, Dreier, Bentsen, Lightfoot, Shaw, Castle, English, Brownback, Roth, among original co-sponsors to give members an opportunity to express their concern on the complete variety of concerns we have with Chinese in no uncertain terms and provide reporting requirements and encourage intensive diplomatic efforts on the part of the President and begin radio-free Asia within 60 days.

So, there will be one opportunity at least for members to express themselves in very specific terms about our current difficulties with the PRC.

Mr. ROTH. Mr. Chairman, I would like to point out that our trade deficit with China is \$29.5 billion. That is huge. So, we certainly have all the leverage when it comes to this issue.

Mr. BEREUTER. Second only to Japan.

I will ask one question. I am afraid we are going to have to recess then. Australia, Canada, Singapore have suggested that Japan has been dragging its feet on devising an action agenda for the year's APEC meeting in Osaka.

Japan's draft action program will leave critical tariff and other tariff liberalization schedules, I understand, up to member countries or would postpone consideration of specific liberalization time tables until next year.

Where does the issue stand, since the most recent senior officials meetings? If you have covered that, I apologize. I did not pick that out of your testimony. Either one or both of you.

Mrs. BARSHEFSKY. The most recent senior officials meeting saw some change in Japan's chairmanship. We had previously been very, very concerned.

Japan is an excellent consensus builder, but not known for its leadership on international trade issues. APEC requires leadership, not just consensus building.

This senior officials meeting, Japan demonstrated some leadership with respect to some of these issues, attempting to persuade the member economies to be more aggressive in their outlook with respect to the possible outcomes for Osaka.

We will be watchful, obviously. We have been very active with the Government of Japan, because we have been concerned that APEC not be allowed to drift in any way, but to stay right on course. We think we will achieve that end.

Mr. BEREUTER. Thank you.

Secretary Spero, do you have anything to add to that?

Mrs. SPERO. I would simply add that I do think we made a bit of a turn with this last senior officials meeting in which the new draft that has been produced by Japan in close cooperation with a number of us, including the United States, really went a long way forward to our direction.

I want to repeat what Ambassador Barshefsky said and that is that we take every opportunity to communicate to the Japanese leadership, including when President Clinton has met Prime Minister Murayama.

The Japanese are on the line for this meeting. That APEC is their chance to show that they can provide leadership. So, we are not only working with them in a practical sense, but urging them on and keeping a very close eye.

Mr. BEREUTER. It is good to hear and I think it is important that you continue to inform the Congress in as great a detail as possible.

I know there is a tendency to communicate with Ways and Means, but here on the authorizing committee, we are very concerned and interested, too.

Mrs. Meyers, would you like to try and fit in a question before you go vote or would you want to come back?

Mrs. MEYERS. Maybe I should come back. What would you like to do, Mr. Chairman?

Mr. BEREUTER. I think I do not want to short you. So, I think we will perhaps recess here.

Mrs. MEYERS. All right. You will be here when we come back?

Mr. BEREUTER. We will be back as quickly as possible.

Mrs. BARSHEFSKY. Yes.

Mr. BEREUTER. As we recess, I will mention that Mr. Burton is chairing the full committee of the House at this moment and would like to have been here, since he is a member of the trade subcommittee.

One of the questions he wanted to ask I can ask very briefly for him is, will President Lee of Taiwan, Republic of China, be allowed to represent the Republic of China at the next APEC meeting in Osaka? Is that clear or uncertain?

Mrs. SPERO. Could you repeat the first part?

Mr. BEREUTER. Will President Lee of the Republic of China be allowed to represent the Republic of China at the next APEC meeting?

Mrs. SPERO. In the past, Chinese Taipei as it is known in the APEC context, has been represented at the leaders meeting, but since APEC is an economic dialog, it has been represented by the most senior economic official from China Taipei.

The decision as to who actually represents the country is worked out by the chair. So, Japan will be responsible for doing that.

As far as we know, Mr. Lee has not made a request to go. Presumably, it will still continue to be the most senior economic official from Chinese Taipei.

Mr. BEREUTER. Thank you very much.

We will stand at recess.

[Recess.]

Mr. BEREUTER. The subcommittee will come to order.

Mrs. Meyers.

Mrs. MEYERS. Thank you, Mr. Chairman.

I understand actually implementing the APEC commitment for free trade is for each country to develop its own time table for opening up its economy. What the Australians call concerted liberalization. I do not know exactly what that means.

How do we get the plans actually enacted without a formal, free trade agreement? Can you tell me how, if each one of those countries has its own time table for opening up its economy, does that fit in with GATT and some of the other world agreements on trade?

Mrs. BARSHEFSKY. Congresswoman, I addressed or touched upon this just very briefly in my opening statement. The issue that you raise goes to process. That is to say, how well do these commitments get formulated and implemented.

What we have tried to concentrate on in APEC thus far has been the "what". What is in the action agenda in terms of substance. Will government procurement be included? Will services be included. Will intellectual property rights be included?

From the point of view of the administration at this juncture, the "what" is more important than the "how". We do not want to come out of Osaka with a bunch of process commitments, but no substance behind.

So, our first step has been to achieve consensus on precisely what the scope will be, what the subject areas will be that will be encompassed by the APEC body.

Then the question to which you are referring comes into play and it is a critical question. Is this done individually by member economies willy-nilly? They will put forward what they want to put forward.

Is this done collectively? Sort of regional wide negotiation, for example, on procurement or on services. Is there some other form of modality by which these commitments are articulated and then implemented?

That is an issue that we are just beginning to come to terms with now in terms of discussion within APEC. From our point of view, it is critical that, first of all, the substance be directed enough that countries understand what they will need to do over time in a very particular way.

Then second, to ensure that as countries move through and liberalize, there is balance. There is reciprocity. Mutuality among the countries.

So that country A cannot offer something very, very minor, while country D is expected to offer up something quite dramatic. That simply will not do.

So how that process will come about, that is to say, how full comparability and reciprocity will be achieved is something we are still coming to grips with.

Mrs. MEYERS. When you are talking about the "what", the substance, the No. 1 thing on that list is market access.

Mrs. BARSHEFSKY. Yes.

Mrs. MEYERS. I think that is extremely important.

Mrs. BARSHEFSKY. Yes.

Mrs. MEYERS. But, if we have one country saying, market access will immediately be very open to the other countries and another country saying, well in 15 years, I think that is a rather important consideration in the "what" and not just the "how".

Mrs. BARSHEFSKY. I agree with you on the example that you are giving. In the last senior officials meeting, there was some discussion about the way in which, for example, tariffs could be reduced through the region on a very systematic basis.

Let me give you just an example. You could say that all APEC member economies need to take the entirety of their tariff schedules, divide them into 3 parts.

Take part A, reduce those tariffs by year X and reduce them to X level. Part B, reduce them in year Z by Y level. Part C and so on. That may ultimately be a formulation that is utilized.

What we have to take into account, of course, is that the United States, Japan as well, have among the lowest weighted average tariffs in the world, whereas many of the Asian nations have relatively high tariffs.

We are starting from totally different baselines. Some means need to be devised to ensure that there are significant concessions coming out of countries that have not provided a dramatic liberalization in the past, as the United States has done.

What I am saying is that we recognize these are critical issues, but right now, at this juncture, what we have focused on thus far is trying to get down, if you will, in a list sense the full scope of issues that will be encompassed by the APEC process.

I cannot emphasize enough how, first of all, conceptually complex this is, but then also how difficult this process is, given the kinds of economies we are dealing with.

We are dealing with nations that are relatively poor nations. Others like the United States or Japan or Canada are relatively rich. There is no common economic system in APEC.

The world's single largest non-market economy is plopped right in the middle. That is China. There is no common political system. There is limited cultural affinity.

This is very complicated. So while I would like to move even faster than we are moving, if we could, I think this will be a very deliberative, staged process.

We will not have it all worked out by Osaka. I think it will take some time after that to work out the kinds of issues you are addressing, which are critical, but we are beginning to make a start toward that.

Mrs. MEYERS. I think the American people are becoming very impatient with large trade imbalances. I presume that, because my district is very supportive of open trade.

We export, I think, 4 out of every 6 bushels that we raise in the State of Kansas. We export airplanes. We export automobiles.

Still, my district is becoming very impatient. I will probably vote for MFN with China, but it is going to be an extremely difficult move.

I just want us to do everything that we can to lay the groundwork so that they understand that we do not want to move into any more agreements that set up these tremendous trade imbalances.

Mrs. BARSHEFSKY. If I may respond to that? We are equally concerned about the exploding trade imbalances, most of which are with Japan and China. China's trade imbalance is growing at a rate far in excess of Japan's, which is of concern.

The Administration, as you know, has been very aggressive bilaterally with both Japan and China, as well as with other countries as well. Particularly where there is evidence of violation of an underlying trade agreement.

In addition, of course, in the WTO context, we push Japan and other trading nations with whom we had imbalances, to make additional concessions.

APEC is another part of that process. It is, to be sure, much longer term, but it is also an important part of that process.

In addition, the President recently signed an executive order establishing a commission that is specifically charged with looking at the causes of these Asian trade deficits, which make up over 80 percent of the totality of our global trade deficit and to make recommendations as to specific actions we can take to alter this very disturbing pattern.

That commission is due to report back to the President before the end of the year. So, we are working very hard on precisely the issues you are identifying.

They are of great concern. If we are to continue to build support in the public for an open trading system, the public needs to see the benefit of that open system, which also includes a reduction in the kinds of trade imbalances we are seeing.

Mrs. MEYERS. Thank you, Mr. Chairman. I would ask Mrs. Spero if she has any comment, but I do not want to overstay my time.

Mr. BEREUTER. The Secretary is welcome to make a comment, if she wishes.

Mrs. SPERO. I would just reinforce what Ambassador Barshefsky said and that is that there is no silver bullet in Asia and that we are working at the bilateral level, the regional level and the multilateral level and should see all of these as complementary, but not exclusively in any one of them.

Mr. BEREUTER. Thank you.

Now, we turn to Mr. Rohrabacher, the gentleman from California.

Mr. ROHRABACHER. Earlier on in the hearing I had some very positive things to say about that part of the world and that we are focusing on today and how the future is being made in Asia.

I see one of the great dark clouds that are ominous in terms of the future being that this United States of America is not providing the right kind of leadership in terms of human rights for this part of the world.

We do not have the money to provide the economic leadership for that part of the world anymore. We just do not.

But, we are not, in turn, providing the moral and the political leadership that will guide this area of the world through its development phases.

Without human rights, without opposition parties, without a free press, these countries will not succeed. They will not.

I mean the bottom line is, if you want a corrupt society and a society where corruption brings down human progress, what you can do is just eliminate opposition parties and eliminate a free press.

That is why, to me, it is so disturbing that this administration has placed human rights on such a low priority. That word is out now.

The word is very clear that this administration, where we can use all the words we want, but the true feeling of this administration is that it is last on the list.

We are even coming to a point now where an American citizen can be held by the Chinese regime and we will still move forward and have a vote on Most-Favored-Nation status. It is a disgrace.

This administration, from what I understand, as the President announced last year, we are basically no longer coupling human rights considerations with our trade policies with China.

This sends a terrible message, not only to China, but it sends a message to Singapore. It sends a message to Indonesia. In the end, those countries, unless there is a respect for human rights, they will not succeed materially as well, because that will bring them down.

I just thought maybe you would like to make a comment on that observation.

Mrs. SPERO. Well, Mr. Rohrabacher, I think the question is not whether the administration actively supports human rights, because I think we are very actively on record in doing that.

The question is really the methods that one uses for an active human rights policy. Last year, the President, as you know, determined that the best way to advance human rights in China, at least, was not to link it with MFN.

Now the fact is that delinking has not led to a dramatic improvement in human rights in China.

Mr. ROHRABACHER. Surprise. Surprise.

Mrs. SPERO. We are not arguing that. The question really is, what are the methods that we can use most generally and what are the methods, if I hear you correctly, that we can use most specifically in the case of Mr. Wu.

In the case of Mr. Wu, it is our belief that the best approach that we can use right now is diplomatic pressure and other forms of quiet pressure that we can use and that we are employing with China, on behalf of Mr. Wu.

Right now, the best thing that we can do with Mr. Wu, is not to explode this issue, but rather try to work it out in a very precise and behind-the-scenes basis.

That does not mean that we are not paying attention. It does not mean that we do not care. It does not mean that we are not pre-

pared to bring not only his case, but other cases forward in a whole variety of fora.

I think the difference here is perhaps a question of methodology and visibility, as opposed to sharing common goals.

Mr. ROHRABACHER. I disagree with you totally. I think that this administration shares none of the common goals that I and other people who believe in human rights have.

This administration is headed by a man who campaigned before the people of the United States and said that he would be tougher on China and human rights than his predecessor.

He attacked President Bush for not being tough with the Chinese on the sole Most-Favored-Nation status issue. He did a 180-degree turn. That is what people overseas see. They do not hear all the words about how we share common goals. They see what we do.

I am afraid the message has been sent and in the end, it will be a very negative message for Asia, because as I say, whether it is Singapore, whether it is Indonesia or whether it is mainland China or wherever it is, if you let the governments know we are just going to deal with you just as if you are like Belgium or you are like France or another democratic power, they will not take the steps that are necessary, because why should they.

Would you like to comment on that?

Mrs. SPERO. I would be happy to comment on that. I think the question is, as I said, again, that we are following a very aggressive human rights policy generally.

If you will look at what we have done in the human rights commission. If you will look at what we have done in our bilateral efforts with China.

If you will look at more broadly, not dealing just with specific cases, but what we are trying to do in a broad area to promote civil society. To promote the free press.

Even within APEC, if I may add and APEC is not designed to advance political goals. It is really strictly an economic organization, but even there in our human resources committee, we are working very actively on human resource development, on labor issues, on development of labor and of training.

So, there are many methods that one can use and I guess I just simply do not accept, Mr. Rohrabacher, that this administration does not actively support human rights.

Mr. ROHRABACHER. I am just saying that it places it at a very low priority. That is all.

Mrs. SPERO. I do not agree with you on that.

Mr. ROHRABACHER. Well, I think the rest of the world can see your actions, rather than your words.

Mrs. SPERO. The test will be in the marketplace.

Mr. ROHRABACHER. OK. There is a political thing. Human rights. I happen to hold that as a very high priority, but let us talk a little bit about just economics of the area, where we may find a little more agreement.

I am concerned that the United States and that businessmen who want to invest overseas spend as much time trying to find ways of guaranteeing their investments through some sort of taxpayer guarantee or taxpayer subsidy, loan guarantees or whatever,

interest rate subsidies for their investment, as they do actually going in and trying to be entrepreneurs.

Are we going to be able to develop a relationship with this part of the world economically so that every American businessman that goes over there to invest is not looking for some type of taxpayer guarantee or loan?

If we go in that direction, are we always going to be non-competitive if we are trying to approach investment in that way?

Mrs. BARSHEFSKY. I think your question has a lot of different parts to it and elements to it.

Mr. ROHRABACHER. Yes, it does.

Mrs. BARSHEFSKY. Let me take a stab at answering.

With respect to the issue of risk insurance, political risk insurance, of course we have OPEC, which is a quasi-private entity, as you know.

Not only is it self financing, but it generates a surplus every year that provide political risk insurance, not only in Asia, but in many areas of the world, including Latin America, the former Soviet Republic and so on and so forth. That is a staple of American business. Most countries have insurance entities of this type.

With respect to Eximbank financing or concessional financing, most countries have very significant concessional financing arms.

The United States arm is among the smallest, particularly for an economy of our size. It probably is the smallest. It is used very judiciously and with great care, but there is no question.

It is a necessary component of our ability to export, particularly for medium-sized companies that do not have adequate funding resources.

Mr. ROHRABACHER. This is really not for export. The bottom line is that we can export. You can export pretty well without making major investments in terms of facilities, et cetera.

Our businessmen, when they seem to want to go overseas to actually invest in a country and set up a factory someplace, they always end up wanting the taxpayers of the United States to end up guaranteeing their investment.

Is there some way we can get away from that?

Mrs. BARSHEFSKY. That is the third element I was about to get to and that is, that to the extent companies wish to establish operations abroad, the issue is very, very complicated.

First of all, as you know, there are often very significant investment barriers abroad, which take many, many forms, not the least of which is limitations on foreign ownership. Limitations on repatriation of profits. Export performance requirements. All sorts of stuff like that.

What we have done in APEC was to negotiate what is called a non-binding code of investment principals to try and ease rights of establishment, rights of entry for foreign businesses and the member economies.

This investment code, I think, is of limited usefulness. The United States was not satisfied with it, because among other things, it did not provide for national treatment for our companies going into these foreign countries.

There is going to have to be very significant improvement of that investment code. The extent to which our companies, however, can

invest in foreign countries on a national treatment basis, to the extent the enterprises we invest in can get electricity and gas and water on a national treatment basis, they pay the same rates as indigenous foreign companies, which in many countries they do not.

That, it seems to me, will make our enterprises abroad more viable and with far less need for any government assistance.

Mr. ROHRBACHER. The best thing for the taxpayer and I will yield, Mr. Chairman, is if we can get away from having this thing where we are in competition with providing taxpayer subsidies and guarantees for people who want to invest overseas. That will be a boon to the taxpayers and to our economy as well.

Thank you very much, Mr. Chairman.

Mr. BEREUTER. Good questions. It could be that if this happens what you are concerned about will be facilitated instead of reduced. I am not sure.

I yield to the gentleman from New York for his questions. Mr. Engel.

Mr. ENGEL. I thank the Chairman.

Let me first say that I have fought many battles for human rights with my friend, Mr. Rohrabacher and I know that he has an exemplary record in terms of fighting for human rights.

I have to disagree a bit with his conclusions. I think that this administration has been no different, frankly, than previous administrations in terms of linking human rights to trade or linking human rights to business.

I do not favor MFN for China and have been consistent in that path and I disagree with the administration's position on it.

I also disagreed with the Bush administration's position, because I think that somehow or other when push comes to shove, we all kind of back down when it comes to China.

For the life of me, I do not see why. But I do not think that the record in this administration is any different or any worse than in previous administrations, albeit I think that human rights always need to have first priority.

I just want to say that, because I think it is a bit unfair to make it seem as if somehow or other there has been a radical change in American policy.

I wish there was, but in reality there has been not much of a change in this regard between the Bush administration and the Clinton administration.

You know the arguments. Business interests come in and with China, Cuba, Viet Nam or whatever and say, if America does not engage in international trade, other nations will.

I do not buy that, but unfortunately I think people do. So, I just want to set that record straight.

I want to talk a bit and I know we have a vote, about the free trade in NAFTA. I was not a supporter of NAFTA. I did not vote for NAFTA or for GATT.

I am not opposed to free trade in the abstract, but I am terribly fearful of the loss of U.S. jobs. I have never fully been satisfied that this kind of free trade with certain countries does not have the result of reducing American jobs.

Has the administration analyzed which sections of the American economy would gain and which would lose from free trade within APEC?

Given the political debate in the United States about NAFTA, how do you make the case to the American people that free trade in APEC will bring more benefit than harm to American workers?

Mrs. BARSHEFSKY. Mr. Engel, the issue that you raised is an important one. That kind of analysis has not yet been undertaken recently.

Previously, the International Trade Commission has done studies in years past on the effects of economic liberalization in the Asian region.

Those studies tend to show that there would be very high gain for the United States, if only on the basis that our economy is already relatively open to most of what those countries make and ship, putting aside textiles and shoes and that their economies tend to be far more closed with respect to what we make and ship, things like sophisticated electronics, telecommunications equipment, medical equipment and technology, automobiles, auto parts. Very high value-added products.

Now, with respect to what we are doing at this juncture in APEC, we are not yet in a position to ask the International Trade Commission to do a further study, because the contours yet of what will be encompassed by this notion of free and open trade is not settled. But once that is, I think this is an exercise that is going to have to be undertaken.

Let me also say though that in the process of working on the APEC agenda, this year and last, we have consulted very widely with our private sector advisors, not only the ACTPN but also the ISAC groups. The various statutory groups of which there are many covering individual sectors.

All evidence of very profound interest in increased market access in the Asia-Pacific region.

Mr. ENGEL. I am sure you can understand why there are a number of us in Congress who are worried about that. I just want to mention one other thing, because of the time constraints.

In 1994, the statistics I have here, two-thirds of the American trade deficit are accounted for by trade with Asia. Japan, \$66 billion. China, \$30 billion. Taiwan, \$10 billion.

What are your projections in terms of trade liberalization under APEC? Would it increase deficits with these countries or will increased access to the markets worsen the problem? Will trade deficits decrease as a result?

Mrs. BARSHEFSKY. You are asking a complicated question, because as you know, trade deficits are a function of a variety of factors. Macro factors. Differences in growth rates. Differences in savings rates, as well as trade barriers.

There is also a great dispute among think tanks and economists how much of these individual bilateral deficits is a function of trade barriers, versus a function of macro or other factors.

Mr. ENGEL. What is the thinking of the administration?

Mrs. BARSHEFSKY. Our view is that we take a rather common sensical view. That to the extent portions of these deficits are attributable to trade barriers and there is no question that they are,

the only question is how bad is it, that to the extent portions are, as we open those economies, we should see some of these numbers shift.

We should see a more positive balance of trade developing. I think that will take some time before we see that, in part, because this liberalization process will take some time to become genuinely meaningful in a commercial sense.

But once we do, as I said, because our economy tends to be relatively open already, we should begin seeing a shift.

Mr. ENGEL. Thank you.

Thank you, Mr. Chairman.

Mr. BEREUTER. Thank you very much for your testimony. I just wish we had more time to pursue a couple of questions, but we have been interrupted.

I think that the U.S. involvement in APEC is a very important and very successful initiative at this point. I follow it with a great deal of interest and I think the Congress should follow it in general more carefully.

That is our responsibility, but I think it also is your responsibility to involve and inform us to an even greater extent than you have.

I am concerned about the difference between the 2010 and the 2020 years. It seems to me we are giving the developing countries an extraordinary period of time.

I am also concerned about the definition of what is a developing country. I think that it would be very hard to suggest that South Korea fits that definition.

Finally, let me say that I think there are some initiatives to try to keep the United States from its active involvement in APEC on the part of some of the countries of the southeast Asia. I am glad you did not let that happen.

I think we ought to be concerned about it. I would hope that we could spread the APEC involvement to other countries on this side of the Pacific as well, beyond those already involved.

Thank you very much for coming today.

We will recess and we will reconvene with the second panel as soon as we return from a vote.

[Recess.]

Mr. BEREUTER. The subcommittees will reconvene.

I want to thank our witnesses on the second panel for their patience and for their appearance here today to testify.

Those of us that served in legislative bodies that separated hearings from floor activities do not understand why the Congress cannot adopt the same process here. It would help our legislative function.

I have already introduced the 3 panelists of this distinguished panel, but I will mention again, Honorable Paula Stern, president of Stern Group, Inc.; Mr. Richard O. Lehmann, IBM Corp., the chairman of the National Association of Manufacturers-Asia Working Group; Dr. Mark Borthwick, chairman of the International Coordinating Group of the Pacific Economic Cooperation Council.

Welcome. We will go in that order, unless you have a preference.

STATEMENT OF DR. PAULA STERN, PRESIDENT, STERN GROUP, INC.

Dr. STERN. Thank you, Mr. Chairman. I appreciate your inviting me here today and giving me the chance to give you my views on the role APEC should play in achieving a positive economic engagement for the United States in these dynamic markets of the Asia-Pacific region at a critical time when the fulcrum of power, both military and economic, is shifting, at least relatively speaking, from the Atlantic to the Pacific.

Let me begin by revealing at the outset my bias. I believe that the success of American foreign policy in the Asia-Pacific region or elsewhere should be measured by how it enhances American economic prosperity and how it maintains the U.S. global leadership role.

Thus, what seems to be an arcane topic, APEC, is really part of a much bigger set of issues. One, the new role for the United States in a new post-cold-war era in the Asia-Pacific and two, the importance currently played by foreign trade in the U.S. economy.

Two months ago, I had the privilege of testifying before two other subcommittees of the House of Representatives on the need for fast track authority to equip the President, whoever he or she may be, to tackle economic problems and to seize market opportunities through negotiation with our overseas trading partners.

So today I would like to focus specifically on the opportunities of the Asia-Pacific and why APEC is a valuable, although not sufficient, instrument for U.S. policy for the 21st century.

At the end I would like to at the end make a few quick remarks on one of the most important members of APEC, China, and on U.S. our relations with that country.

You have heard a lot of statistics that were very good today on the economic stakes for the United States. In every respect—long-term market share, overall market share, composition of U.S. exports to the region, per capita consumption of U.S. exports—the Asia-Pacific region represents the best prospects for U.S. exports now and in the future. The Asian economic miracle and the idea of a Pacific century have become almost cliches. But the breathtaking reality of these economies, which is a tribute to the Asian model of export-led growth, and which has shattered the previous north-south paradigm is also a tribute to the United States and its policies of encouraging open market.

It should be remembered that the Asian economic miracle, since the end of World War II, relied, insisted, needed the United States to be the market of both first and last resort for Asian export-led development. Now, east Asia itself is becoming an engine of growth, along with the United States. An engine of growth in the global economy and a defining reality for the whole post-cold-war international system.

So, the challenge for us here in the United States is how to balance competing interests and utilize America's many assets, economic, political and strategic, in this region as in the Atlantic, where we helped shape the emerging order; and also to assure that Washington is woven into the political and economic fabric in the Asia-Pacific.

The economic and political stakes of expanding trade with Asia are increasing for the United States. Ironically however, U.S. economic power and influence in east Asia seems to be declining in relative terms. I will elaborate on that later when I talk about United States-China relations.

What stands out in any case in the region is a shared unease at perceived trends of a contraction of the central economic and military role played by the United States, simultaneous with the rise of China and Japan as multidimensional powers.

Asian calculations tend to be based on the long-term. Therefore, adjusting to and compensating for these trends animates both Asia-Pacific efforts, as well as the U.S. effort, to shape a post-cold-war order.

Now, having discussed the rewards economically that could be available in the Asia-Pacific region and some of these long-term challenges by the shifting influence in power in the area that faces the United States, let me talk a bit about the strategies the United States should follow to overcome these challenges.

We should adopt a multifaceted approach to tackle the challenges in the Asian markets, and APEC is a useful instrument. But how we expend our diplomatic and our political capital in those meetings at APEC is critical. Too broad an agenda for APEC would overburden this fragile organization and overshadow the progress that the working groups at APEC and the business community have already made in the region.

I believe that the purpose—the *raison d'être*—of any regional economic grouping would be to advance prosperity beyond any achievements that a multilateral institution can achieve, such as the World Trade Organization.

So, if the standards that are adopted by a regional grouping are lower than House of the World Trade Organization, then the grouping runs the risk of diverting, rather than advancing, economic prosperity.

Last November at Bogor, Indonesia, the APEC leaders issued a declaration calling for a vision of free trade by the year 2020, and as you know, for the developed countries, the year 2010. That APEC declaration, unlike the NAFTA, the North American Free Trade Agreement, announced its objectives of so-called free trade without clear definitions or criteria for what that concept means.

During the 2 years that preceded that Bogor decision, I argued in a number of papers that what was more needed from the governments of APEC was a clear direction to build a path to freer trade in the Asia-Pacific, brick-by-brick, with time tables for action that were realistic to business, which has been, as I said, the driving force for the dynamic progress in the Asia-Pacific markets. I was particularly concerned last year and I remain so now that renewal of the President's fast track negotiating authority might be in jeopardy.

An APEC vision of broad, far-off objectives of free trade by the year 2010 for developed and 2020 for developing nations, should be tempered by the practical recognition that NAFTA barely passed Congress. That is even though Mexico's economy is only 4 percent the size of America's.

Indeed, since the November, 1994 election, I must say this recommendation for modest but concrete achievements through APEC have become essential in order to convince Congress that granting fast track authority for Asia-Pacific-related activities will yield positive results for the United States.

Pursuing a futuristic exercise of free trade area should not divert efforts either from expanding global free trade on the one hand or from the hard slogging of more modest building blocks in the dynamic Asia-Pacific of liberalizing trade in key growth sectors, accelerating the Uruguay round commitments in tariff and non-tariff areas, or harmonizing standards and customs procedures.

Last October, the President's Advisory Committee on Trade Policy and Negotiation, the ACTPN, of which I am a member, which represents business, labor and other trade interests in the United States, pointed out the need for APEC, to achieve these concrete results within a timeframe that businesses could appreciate. Many U.S. companies want Washington to set achievable short-term goals for APEC, rather than focusing on long-term grandiose objectives.

The ACTPN report of last October talked about working with the existing working groups at APEC, to achieve tangible achievements and commercial dealings.

It also talked about the short-term, again referencing 24-month objectives, to deal with, or at least start dealing with, the objectives that were unresolved at the Uruguay Round, specifically financial services and telecommunications.

The ACTPN report also talked about moving forward quickly on accelerating actual Uruguay Round commitments that those countries made.

Today, I would like to compliment the Clinton administration for pushing an action agenda for this November's upcoming APEC meeting at Osaka. It emphasizes, as you heard, major milestones that countries could achieve and calls for attempting to achieve time tables that are meaningful to businesspeople.

I think the administration has been listening and I think they have taken it very much to heart. They are properly focusing on getting APEC members to take these modest, but practical, steps first to implement commitments made in the Uruguay Round and second, to initiate dialogs in areas where we can begin to move beyond the multilateral commitments made at the Uruguay Round.

In addition to those ACTPN recommendations for concrete steps, which apply across sectors, it might also help to adopt one sector or more where APEC might tangibly demonstrate its ability to advance economic cooperation on this business-like time table, something that the general public could appreciate.

One area, for example, one sector that is worthy of pursuit is the chemical industry. The chemical industry seems to be very interested in moving faster than some of the other sectors and if so, I would urge that those who can move faster do so.

Hopefully we can next tackle other sectors, such as the telecommunications and information services industry, and thereby advance market access for the United States and other developed nations while enhancing productivity and infrastructure throughout APEC.

So, now that the administration seems to be following the direction of building the path to free trade brick-by-brick, the task becomes how to convince the various other individual members of APEC that these more deliberate steps are a win-win proposition for all 18 members, whether they are big or small, developed or developing.

Market opening initiatives enhance the fortunes of all nations. They do not represent, as some seem to fear in the region, some kind of a mercantilistic conspiracy by developed countries to dominate vulnerable markets in developing countries.

Convincing other APEC members that liberalization is self-rewarding will be hard. For example, the reluctance on the part of several ASEAN states last year to embrace the ambitious plan for free trade by 2020 is a measure of the fear of some kind of a hidden agenda by the United States.

However, now that we seem to be shifting our attention to goals in a more realistic framework, as we point toward the Osaka meeting, some of even the most vocal developing nations, interestingly enough, including Indonesia, Singapore and Thailand, are also calling for APEC to deliver concrete achievements and are openly criticizing the overly cautious and vague approach to liberalization that Japan's MITI had taken in some of its earlier planning stages for Osaka.

I cite an interesting commentary from a Bangkok newspaper that appeared when I was out there 2 weeks ago saying the time to begin is now and not 20 to 25 years from now. Sounds like some American business people I know.

Even worse, if Japan's time table prevails for Osaka, it would mean that concrete measures would be tabled next year with actual implementation delayed until at least 1997.

Reportedly the administration is pushing back and I have great confidence that it is very sensitive to the concerns that time is not on our side when it comes to the relative trends going on in Asia.

I must issue a warning that failure to achieve concrete results in a unified plan at Osaka would represent a lost opportunity and would leave us hardly further along than we were at last year's summit in Bogor.

Mr. BEREUTER. Paula, I apologize, but I am worried about a series of votes coming up. So, if you could summarize, I would appreciate it.

Dr. STERN. Let me just make my one comment then on China.

Mr. BEREUTER. I would like to hear it all. PRC, yes.

Dr. STERN. Which is obviously the country that everyone is struggling to integrate both into the global, as well as the regional order, on a political and economic basis.

I am very concerned that this spiral of misunderstanding between our two countries has a dangerous precedent in the guns of August, that preceded the outbreak of World War I. Here we are in July and I think we should bear in mind that the history of western civilization has not been very good on peacefully integrating emerging great powers. I do not want to see China in the 1990's become what Germany was in the 1870's. There is a vacuum of leadership in China. I think they are misunderstanding some of U.S. goals.

I think it is very important to point out that U.S. policy goals in Asia and in the globe—including opening markets to trade and investment, protecting intellectual property rights, support for democracy and human rights, nonproliferation of nuclear weapons—are all global goals, and they are not directed at containing China as a world power. These are goals that the United States has advanced for decades and certainly before China ever emerged on the world scene in its present form.

As a corollary, China must also develop greater understanding about the U.S. political system, because we are not a mirror image of the authoritarianism prevailing in China. Rather, we do have a system that preserves divided power. Some individual statements that are being made in Congress and elsewhere should not be confused with official U.S. foreign policy.

Proliferation of U.S. voices on China policy is normal, in that America values a proliferation of voices in democracy. This, however, contributes to the current turmoil in United States-China relations. It is one thing to assert traditional U.S. values and goals, but there is a major difference between advancing goals of democracy and open markets, for example, and calling for a dramatic shift in the status of Taiwan. The latter is gratuitous and could lead the United States into a military confrontation with a nuclear China, in which the United States would be seen as having provoked the crisis.

So, I would urge that elected officials think carefully as they speak, and I would urge that the Chinese become more sophisticated as they see and interpret U.S. actions.

China, meanwhile, also is sending signals that can be misinterpreted, including the arrest of Harry Wu. That is a very important case in point.

The Clinton administration is trying to manage the China relationship and strike a balance; pushing for progress in human rights, while preserving open lines for commerce that strengthen China's pre-market movement.

This is a time for nuanced policy and I think that with some clearer statements coming from Washington about what U.S. traditional and global goals are—versus some of the more provocative statements having to do with Taiwan—might move, the Harry Wu case to be dealt with more deftly by the Chinese leadership. Thank you.

[The prepared statement of Dr. Stern appears in the appendix.]

Mr. BEREUTER. Thank you very much. Dr. Stern also has some interesting things to say about Japan and East Asia and economic caucus in her written remarks.

All of your statements will be made a part of the record.

I would like to call upon Mr. Richard Lehmann next. He is not only with IBM Corp., he speaks as the Chairman of the National Association of Manufacturers-Asia Working Group.

If you could, summarize in about 5 minutes or so. I would appreciate it.

**STATEMENT OF MR. RICHARD O. LEHMANN, IBM CORP.,
CHAIRMAN, NATIONAL ASSOCIATION OF MANUFACTURERS-
ASIA WORKING GROUP**

Mr. LEHMANN. Sure, I will. I will be brief, Mr. Chairman. The NAM appreciates your invitation to appear and we applaud your initiative in convening these hearings.

While the NAM has consistently supported the APEC process, we are concerned that should the Osaka meetings fail to produce clear and tangible progress toward the agreed goal of regional free trade, U.S. business interest in, and confidence in, the APEC process could be undermined.

We have some specific suggestions as to things that might be done regarding the building blocks to which Ambassador Barshefsky referred.

In the 1993 statement on APEC, the NAM endorsed APEC as the most promising of all the organizations that had been proposed for the Pacific region. That is still the case.

It is the right forum for economic integration of the countries of the Pacific rim. As you pointed out earlier, it would be a serious mistake in the process of the Asia-Pacific regional integration to proceed without the United States; a serious mistake for the United States and for the countries of Asia-Pacific.

The NAM has 5 specific suggestions of things that could be achieved in Osaka that would be tangible, immediate sort of benefits. Let me just outline them briefly.

First, we think that the countries there could support accelerated reductions of Uruguay round tariff cuts. A good first step toward the year 2020 would be to accelerate the tariff reductions they committed to last year in the Uruguay Round.

Second, custom procedures and information is an area in which APEC has already made real and impressive progress. Our understanding is that, at a June meeting, the APEC customs working group agreed to a rapid implementation of all major customs agreements, including the valuation agreement, the use of the harmonized system and agreement on carnets, which are documents that deal with the treatment of certain goods, such as samples that are imported for brief periods and re-exported.

The United States already adheres to all of these agreements and it would be a boon to U.S. exporters to have our APEC trading partners agree in Osaka to play by these same rules.

Third, the guide to the investment regimes of the 15 APEC member economies that was released in November, 1993, was a useful document that gave meaning to the concept of transparency in investment.

The non-binding investment principles that were released last year were also a constructive step. We would like to see further progress in these investment principles and perhaps a commitment to go beyond the non-binding into the binding area in terms of investment commitments.

Fourth, few areas of commerce are of greater importance to liberal trade than the protection of intellectual property rights.

At Osaka, we would hope that APEC members will discuss making solid regional commitments to IPR protection. They could begin by agreeing to accelerate the intellectual property obligations that

many of them have already undertaken in the trade-related intellectual property code of the Uruguay Round.

Fifth, currently, each APEC country has its own set of laws and regulations concerning business visas, work permits and the payment of personal income tax.

This maze of laws and regulation pose a real barrier to business operations, both within the region and for U.S. businesses. We encourage APEC members to work toward harmonizing these laws and regulations that stand in the way of more flexible movement of persons doing business in the region.

These are 5 concrete steps that would represent real building blocks of use to business doing business in Asia, and we very much urge that these kinds of things be considered as countries also develop a road map toward the broader goal of regional free trade by 2020.

Thank you.

[The prepared statement of Mr. Lehmann appears in the appendix.]

Mr. BEREUTER. Thank you very much for those very practical suggestions.

Now, I would like to call upon our third witness, Dr. Mark Borthwick. He is the chairman, International Coordinating Group of the Pacific Economic Cooperation Council.

Dr. Borthwick, welcome.

STATEMENT OF DR. MARK BORTHWICK, CHAIRMAN, INTERNATIONAL COORDINATING GROUP OF THE PACIFIC ECONOMIC COOPERATION COUNCIL

Dr. BORTHWICK. Thank you, Mr. Chairman, and also thank you for organizing an important hearing on an important topic.

I would like to focus my remarks in response to those statements that we have heard so far and to table my statement in order to look at some other dimensions.

First, I should explain that the organization I represent is an international organization. The Pacific Economic Cooperation Council is an official observer in all APEC meetings, at the ministerial level, the seniors officials level and working group levels.

We are more than a spectator. We interact with APEC, often channeling private sector participants into some of the meetings, with special side meetings, in order to make sure that private sector views are brought into the deliberations. In that sense, our perspective is shaped "down in the trenches". We are interested in what is real and can be made to working now. I think that the statements that you have heard so far focus appropriately on the big issues, the big stakes in APEC, namely the Bogor Declaration and the intention to liberalize trade to become free trade in the area. It is notable that this is not to be a "free trade area", but "free trade in the area", by 2010, 2020.

In terms of immediate payoffs to the constituents that are represented on the subcommittees, over the next 2 to 6 years, we need to look at other areas of APEC that are probably going to be more productive in the short term, namely those areas that are called "facilitation" and "development cooperation".

In some respects, I think we find a remarkable degree of progress. The telecommunications group in APEC, with which we in PECC work closely, is now on the verge of working out some substantial agreements. I think these will be of very strong benefit to our telecommunications companies, such as in the international value-added network services (IVANS) agreements.

In other areas, however, I think we can hope for more progress and we would even hope to see new areas given more emphasis in APEC.

One area that is glaringly absent from the main APEC agenda is agriculture. If we reflect on the discussion we have heard so far about trade deficits, I think we have to consider the possibility that the United States also has many individual trade surpluses to its credit.

We do not collect the statistics in a way that show this, but I think we could say that the state of Nebraska or the State of Iowa, where I come from, run substantial trade "surpluses" with East Asia based on agriculture exports. Certainly, for the foreseeable future with, those trade surpluses are going to grow dramatically with Japan and China.

I think that also the stakes are very high on what Asian trade policies in agriculture are going to be. China's trade policy, and its agriculture policy specifically, is on the edge right now of going further toward subsidies, versus more open markets. Either way, it is going to affect our agriculture markets substantially.

So, I think there is more work to be done in APEC in this area. We can understand why a field like agriculture during the Uruguay Round had to be put on the shelf in APEC, but now that it is more resolved, I think we could do more substantial work.

Time does not permit me to go into some of the other areas that have been successful in APEC so far, but I think the important point is that there is a role for business and even for civic community interests to play and to interact with APEC.

What we find to be most encouraging is the way that APEC is trying to develop an open system for that purpose. Community interests, for example, can look at air rights agreements that will benefit airports located in the communities. Financial markets, where we have a very strong competitive advantage, is another area where there is a potential for input from the private sector that will be a substantial advantage to the United States in the long-term. Thank you.

[The prepared statement of Dr. Borthwick appears in the appendix.]

Dr. BEREUTER. Thank you very much to all of you.

I am wondering if each of you would think and share with me and for the committee's record and for those in attendance, your thoughts about the pitfalls that face the organization and how we can avoid those and the pitfalls that face the United States in its participation in APEC and in general in southeast and east Asia on trade issues.

Dr. STERN. Well, I think that there is a common desire to make sure the United States stays engaged in the region and in APEC as well.

Mr. BEREUTER. Is that shared by about everyone?

Dr. STERN. I believe so. You can just tick off the different countries.

Mr. BEREUTER. Including Malaysia, despite the frictions there?

Dr. STERN. The United States is a very important market for Malaysia.

Mr. BEREUTER. They have a lot of frictions with us. At least they vocalize it.

Dr. STERN. Well, I think that we need to put what we hear about them in perspective and recognize that they enjoy an enormous amount of U.S. investment and other overseas investment and access to the U.S. market is still critically important.

By the way, the U.S. market is still the number 1 or number 2 most important market for every APEC member. Therefore, I think that there is a certain tempering. They do want the United States to remain engaged.

I think that there is an enormous misunderstanding, however, about what I call the "hidden agenda" of the United States; somehow this sense that the United States has its own set of rules and it wants to impose them.

I think that there has been an enormous amount of misunderstanding and I think we can help, as I said, for example in the China declaration that I am proposing, to separate what are traditional and historic goals from those that tend to get bilateralized.

Mr. BEREUTER. What do you hear? What hints do you pick up about to what they feel our hidden agenda is?

Dr. STERN. The one that is more than a hint, you hear it from some important folks out in Asia is that the United States is trying to open up those markets before they are ready. They still are adhering to this old infant industry idea. That if they could just protect their industries, that they will be eventually competitive enough to stand up to developed countries like the United States. The Chinese in particular, the mainland Chinese, express this all the time. They are absolutely wrong.

I think Latin America which applied the infant industry approach lost decades in its development. And now through liberalization, privatization, regulation and opening up to outside competition, Latin America is succeeding.

Mr. BEREUTER. So, it is a new variant of mercantilism?

Dr. STERN. They think because they are mercantilistic in their thinking, they impose on us this notion that we are mercantilistic and therefore if we are trying to open up their markets, we must have some hidden agenda to try to dominate them while they are still weak.

Mr. BEREUTER. To what extent are they following what they consider to be a Japanese model for success?

Dr. STERN. I think that can confuse the issue. There is no question that all of these countries have been export-led in their growth. Again, the U.S. market has been extremely important in their successes. But, if you look at China and you look at Japan, for example, those are two and Singapore, three very different models.

Hong Kong and Singapore, of course, are open in trade and investment. China, in terms of its development, has relied enormously on foreign investment, both private and international world

bank investment; whereas Japan has really been quite closed to foreign investment. I think it is one of the reasons why right now we are having such a hard time opening Japan's markets generally to trade.

So, I think there are different models. Yes, they all have been export-oriented and yes, the U.S. market has been a very important ingredient. But, I do think that they have had a different recipe in each country.

Mr. BEREUTER. Thank you.

Mr. Lehmann.

Mr. LEHMANN. Well, I certainly associate myself with the comments that Paula made. I would simply add that our company announced our second-quarter earnings today.

Those earnings show a 14-percent revenue growth over the year before, including 32-percent growth in the Asia-Pacific region. That is not an unusual quarterly report for American international business.

So, the APEC region is really fueling the global growth of American business. It is essential for the United States to remain integrally involved. It is the American businesspersons who have watched a kind of ebb and flow of U.S. policy in the region.

I see the major exposure here is whether the United States is in this for the long-term. Whether they will maintain their nerve and their interest in pursuing these goals that have been set out in the APEC process, which is one of the reasons why in our written statement we suggested a series of practical, Mark Borthwick's term, facilitation sorts of things.

So that we are not simply moving toward a goal that people are wondering whether they are going to be alive to see, but that there are practical benefits from it produced and reached on an annual basis.

Mr. BEREUTER. This subject of potential lack of interest and continuing to be fully engaged in the region keeps cropping up all the time, despite statements being made by this and the previous administration, statements here on the Hill, that we are there for the long-term.

We are there militarily. Economically we want to increase our involvement. What evidence has to be produced to convince people that we are serious about enhancing our partnership in the region?

Mr. LEHMANN. If you look at it from the viewpoint of some of those countries where for budgetary or other reasons our embassies are getting smaller, some of the services being provided are being cut back, and where despite Mr. Rohrabacher's comments, the export-financing risk insurance facilities of the United States do not compare very well with those provided Japan and Germany.

From the viewpoint of those countries, not on an individual private business basis, but in terms of the kind of support the U.S. Government has in that area, despite whatever words they may say, it sometimes looks as if U.S. interest is beginning to diminish. Certainly as compared to where it may have been, for example, 10 years ago.

Mr. BEREUTER. I think that is a fair statement, unfortunately true.

Dr. Borthwick, what would you like to contribute to this?

Dr. BORTHWICK. Well, to your original question, what is the greatest danger to APEC, I would say unreservedly that it is inflated expectations by the United States of the organization.

That is paradoxically relevant to Ambassador Barshefsky's comment that, "What is more important is the 'what' than the 'how'". We are going to define the "what" of what we want to achieve in APEC without saying how we are going to do it. When I was in Jakarta the day after the Bogor Declaration was released, one of the most eminent economists for the Asia-Pacific region came up to me and said, "This is surreal".

He could not understand how we were going to get there from here. I think that is still a very deep concern that many of us have.

How do you define the path to free trade in the region with the breadth and depth that has been declared? Inflated expectations could derail this, if the ambitions exceed the grasp.

That is our major concern. We have been asked by APEC to provide a complete survey of trade and investment impediments in the region. We are beginning to draft the report next week in Australia.

Mr. BEREUTER. Non-tariff barriers as well?

Dr. BORTHWICK. Non-tariff barriers included.

Mr. BEREUTER. This must be an incredible document.

Dr. BORTHWICK. It is one of those "mission impossibles" for which we are saying we can give the first draft, but it is going to take a long time. We do think that it will form the foundation of review and testing of progress toward the resolution of the Bogor Declaration and we are very enthusiastic about undertaking the challenge. But it gets back to this question of what is the process by which we reach these goals. We are concerned that we should not set benchmarks prematurely or excessively high, because we have to be committed to APEC for the long-term. We have to be in APEC as a nation, as you said, that is fully committed to the region. That means that the instrument of APEC is there for us when we all need it at once, not just there for the United States when we need to assert our interests.

Last, perhaps the greatest problem from the standpoint of businesses, is that while they are committed to the objectives of the Bogor Declaration, they also want to see some short-term results. We are likely to achieve some, as I said earlier, through these other short-term measures.

Mr. BEREUTER. Dr. Stern, I notice that in your paper you used the term "concerted unilateralism" and I think someone else used a similar phrase, if not that exact phrase.

I gather we are talking about Japanese policy as it seems to be evolving, if it is a policy, in the preparation for the Osaka meeting or perhaps it is longer term than that.

You may have heard me ask questions of the administration witnesses about the Japanese draft action program. It seems to leave a number of the critical elements undetermined.

Is this what you are talking about when you talk about concerted unilateralism or is that only one aspect of it?

Dr. STERN. No. That is what I am talking about. There has been a kind of theological debate that goes on among diplomats as to what approach to take; the "how", if you will.

Japan put forward this notion of concerted unilateralism, where each country would basically unilaterally state what it intends to do, but that the individual nations might be at different stages of liberalization along the way.

Mr. BEREUTER. This leaves us very vulnerable, does it not?

Dr. STERN. It does. I think that Japan now is saying, among other processes that this will be used. So Japan has been talked back a little bit from its first draft. I think the United States has done a very good job with trying to push forward in concrete ways, practical ways, with time tables that are realistic. We will just have to see.

I am concerned that we may have to hold back a little bit in pushing other countries to open up because Congress may not permit an executive branch to be properly equipped.

Mr. BEREUTER. How should we pull back? What do you mean?

Dr. STERN. We may not be equipped to negotiate, because we may not have the fast track authority for whoever is in the White House. In that sense, we may have to temper our enthusiasms, if you will, just because we will not be equipped to get down to the tough give and take. To open those other countries.

Mr. BEREUTER. Among other problems, of course, the administration insists on inserting in fast track agreements the environmental and labor issues. That seems to be unacceptable to the majority-plus at this point.

Dr. STERN. I am certainly aware that this is the issue that is holding up progress. I would hope that the authority that had been given Ronald Reagan for the Uruguay Round and George Bush for the NAFTA to negotiate, which did take into account some of these objectives, goals in the environmental area and in the worker rights area, would also be given to whoever the president is to negotiate in the future.

In other words, there are precedents here. I think that with proper understandings as to what is to be negotiated, then perhaps one could come up with a concerted effort between the Congress and the executive branch, even in its new majority.

We all want to make sure the United States is positively engaged in Asia-Pacific. We tend to dwell, naturally, on what governments can do. But, the economic miracle in Asia has been a business driven process. I believe while the strong U.S. military role will be maintained, it will nevertheless be different in this new post-cold-war era. Therefore, the commercial presence, the business presence is even more important. So, I turn to the businesspeople and say, you have to be out there, too. The governments cannot substitute for you.

Mr. BEREUTER. Well, their absence is noted in many countries at this point.

Dr. Borthwick mentioned about your particular and very interesting role with respect to APEC, but Mr. Lehmann, speaking for one part of the business sector, NAM today, how do you think the business sector should be involved in and around the APEC process?

Do you have an opportunity to fully express the business interest to the U.S. administration?

Mr. LEHMANN. I think that there has been a wholly adequate job of consultation between the administration and the business community here.

In the context of APEC itself, there is an organization, the Pacific Business Forum, which has representatives from the business community of all the APEC member countries.

That has been set up as a parallel organization, if you will, to the leaders group and the ministerial organizations.

Mr. BEREUTER. Is there a broad based American involvement to send your input into that, because there is a limit, I am sure, on how many of you can be represented.

Mr. LEHMANN. There are only 2 members from each country, but I think beneath that, there has been a pretty good job of trying to solicit views from a broad spectrum about where the business community ought to go.

Mr. BEREUTER. Is it real organization then and not just a paper one?

Mr. LEHMANN. I think the jury is out on that. They have only been through their first year. They are into their second year and whether or not that is going to be an ongoing organization or whether another more broad-based forum is going to need to be developed, we will see. I think for the time being, it is quite adequate.

Mr. BEREUTER. One of the interesting things that has occurred to some of us and we have had some contact from business and the administration, is that there seems to be very little contact among legislators on this side of the Pacific and that side of the Pacific.

There have been some abortive efforts made, but we have all kinds of contacts with the Europeans through the North Atlantic Assembly and through exchanges of the European Parliament.

I do not think we feel like we can take on many more formal interparliamentary efforts, but perhaps there is some interest in Asians in involving us at least in informal arrangements.

I am not looking for an additional role for parliamentarians, but if it is a valuable one, then any ideas you might have in that respect or others who are listening would be welcome.

Dr. Borthwick, I am going to give each of you an opportunity for the last word from your point of view of something that has not been covered at all and then I think we should adjourn.

Dr. BORTHWICK. Just a further word on the business involvement in APEC. There is also an organization in the United States, an informal coalition of bilateral business organizations primarily involved with Asia that is called the APEC Business Coalition.

It also, along with the various official advisory business bodies, to the government has tried to stay in touch with the APEC officials. So, I think in the United States the process is a fairly healthy one. APEC is still trying to work out the modalities of more comprehensive, region-wide business inputs, but it is important to recognize that business is not some homogenous entity out there. First, business is internally competitive as a group. Second, businesses are of many sizes. Third, relationships of businesses to governments varies enormously around the region. So, this has been a thorny issue for APEC to grasp and I am not sure that it is going to come up with a solution very quickly.

Mr. LEHMANN. I think I would echo that. When you talk about the business community in China, you can understand that you have different people sitting at the table than you might if you talk about the business community in the United States.

I am reminded that in Osaka the Japanese business groups are going to bring together the major business associations from all the major APEC countries in addition as sort of an informal process that will go on at the same time as the leaders meetings.

But there is variety within the business community, you know. Business is a term like politicians: there are all sorts of varieties associated with it.

I think when you have 18 countries, who are as different as Ambassador Barshefsky described, you obviously have all sorts of different people around.

Dr. STERN. Very briefly to cover something we have not covered, which is what your charge was in closing. APEC is a very valuable instrument, but it is not sufficient. There is a lot more we need to be doing, including the business community's activities, not so much in APEC per se, but in initiating forays into new markets. The U.S. automobile industry abandoned the Asian area, and are now just coming back in. It is not just in Japan that they are limited. That is an enormous example, but there are many other examples.

The point that I would like to make that has not been made is (I think you may have brought it up in one of the questions to the administration) is the possibility of a link between the NAFTA or member countries of the Americas and Asia-Pacific nations.

It is important to make it very clear that NAFTA is not discriminatory. That it is adhesive. An accession clause in NAFTA allowed for new members, regardless of where they are located. NAFTA does not say you have to be on one side of the Pacific or the other. To the extent that there are countries that can meet the standards and wish to be bound to those standards of the NAFTA, we should make it clear as a government that we would welcome that.

There have been countries that have in the past expressed interest, but I do not know if they would meet the standards. It depends. I went into that in my fast track testimony a couple of months ago at the Ways and Means committee.

Mr. BEREUTER. Thanks to all of you quite sincerely for your testimony and for your responses to my questions.

Our colleagues will be interested in reviewing what you have had to say. I am particularly appreciative of your time. Thank you.

I want to also mention as we close here that I would ask unanimous consent—I am not likely to have any objection—to insert into the record a statement from the Government of Australia.

[The statement from the Government of Australia appears in the appendix.]

Mr. BEREUTER. I think the Australians' point of view, which they volunteered for this hearing, would be very helpful to us.

The hearing will be adjourned.

[Whereupon, at 4:45 p.m., the subcommittees were adjourned.]

APPENDIX

CHAIRMAN ROTH'S OPENING STATEMENT

It is a pleasure, Chairman Bereuter, to join you in co-chairing this hearing.

APEC's 18 members today represent over 40% of the world's population and account for over 40% of world trade. They produce more than half of the world's output. They are the fastest growing group of economies in the world.

The issue before us today is the future of APEC. Will it remain an interesting discussion group?

Or is it poised to become an agent for concrete steps and important trade liberalization?

Key is the declaration issued last November on free and open trade. It would appear to have been both bold and momentous.

Consider the historical contrast -- the meeting occurred just two hours drive from where the nonaligned movement was begun nearly 40 years before.

The buzzwords of economic confrontation like "anti-imperialism" and "anti-colonialism" have been usurped. Countries like Indonesia are now committed to capitalism.

That's the good news.

The bad news is that the declaration did not legally bind the members to do anything. Its target for "free and open trade and investment" in the region -- the year 2020 -- is hardly imminent.

Only one of the leaders at the meeting, the Sultan of Brunei, even has a chance of being in office in 2020.

The declaration was ambitious. It could transform APEC. It could also transform nothing. Its importance will depend on whether the words are translated into action.

Only tough negotiations will determine whether the declaration was hype, or a bold move into the future.

I look forward to today's testimony, and to an update on U.S. efforts to achieve tangible benefits through APEC.

JOAN EDELMAN SPERO
 UNDER SECRETARY OF STATE
 FOR ECONOMIC, BUSINESS AND AGRICULTURAL AFFAIRS

Joan Edelman Spero was sworn in as Under Secretary of State for Economic and Agricultural Affairs on April 2, 1993. Mrs. Spero's former government service was as United States Ambassador to the Economic and Social Council of the United Nations from 1980 to 1981. In that role, she formulated and executed United States policies on economic and social issues at the world organization and served as senior economic adviser to the U.S. Ambassador to the United Nations, Donald F. McHenry.

Before joining the Department of State in 1993, Mrs. Spero was Executive Vice President of Corporate Affairs and Communications of American Express Company and a member of the firm's Corporate Planning and Policy Committee. Her responsibilities included managing American Express' corporate and employee communications, world-wide government relations, the company's philanthropic and cultural programs and its consumer affairs and public responsibility units. Mrs. Spero served with American Express for twelve years, beginning as Vice President, Strategic Planning.

Mrs. Spero taught for six years at Columbia University in the late seventies and has written and lectured widely on international economic issues, including international monetary problems, energy and Third World relations. She is the author of The Politics of International Economic Relations and The Failure of the Franklin National Bank: Challenge to the International Banking System.

Mrs. Spero graduated with honors from the University of Wisconsin, where she was elected to Phi Beta Kappa. She holds a Ph.D. in political science from Columbia University. She also studied at the Institut d'Etudes Politiques in Paris and speaks fluent French.

Active in professional associations in foreign affairs and economics, Mrs. Spero is a member of the Council on Foreign Relations and the Council of American Ambassadors and serves on the Board of Trustees at Amherst College in Massachusetts. She is married to C. Michael Spero, a New York attorney. They have two sons, Jason and Benjamin.

Testimony for Joan E. Spero, Under Secretary of State
for Economic, Business and Agricultural Affairs
House Committee on International Relations
Subcommittees on Asia and Pacific Affairs and
International Economic Policy and Trade
Tuesday, July 18, 1995

Introduction

Mr. Chairman and Members of the Committee. I am pleased to have the opportunity to testify on U.S. policy toward APEC, the Asia Pacific Economic Cooperation forum. In my remarks, I will provide an overview of the strategic role APEC plays in U.S. foreign economic policy, review APEC's evolution and set out the Administration's goals for APEC in the near term.

The Importance of the Asia Pacific

The Asia Pacific is one of the most economically dynamic regions of the world. It accounts for 41 percent of world trade and half of world output. It is the fastest growing region in the world: thirty years ago, Asia alone accounted for only 4 percent of the world's economy; today it accounts for 25 percent. Some economists predict that by the year 2000, it will account for 33 percent. By the end of this century, one half of world trade will take place in the Asia Pacific region.

Asia is not only dynamic; it also is increasingly a closer, more cohesive, more integrated region. Forty-two percent of Asia's trade now takes place within Asia. And intra-Asian trade is growing four times more rapidly than trade between the United States and Asia. Direct investment by Asians within Asia also is burgeoning. Japanese companies are in the lead: they accounted for 18.4 percent of the foreign direct investment in major Asian markets between 1986 and 1992. But the Japanese are not alone. Companies from the rest of Asia -- Korea, Taiwan, Hong Kong -- accounted for half of all foreign direct investment in the region.

The worldwide communications revolution now underway will link the region ever tighter in the future. Pacific Rim countries are investing more than \$21 billion annually to modernize and restructure their telecommunications networks. Fiber optic cables, the Silk Roads of the 21st century, are being laid throughout the Pacific.

U.S. business needs to be a part of this explosive economic development. As markets and competitors, the nations of Asia and the Pacific will only become more important to us in the future.

Already one third of U.S. exports, supporting nearly 2.7 million American jobs, are destined for East Asian markets. There are immense challenges and immense opportunities in the region's dynamism. We must meet both.

New Economic Architecture

U.S. business is doing its part by becoming more competitive. For the first time since 1985, the United States last year displaced Japan as the world's most competitive economy. We are once again the world's greatest export machine, exporting more goods and services than any other economy.

But business cannot do the job alone. Government also has its part to play. The Clinton Administration has put economics at the center of its agenda and is committed to ensuring that U.S. economic interests are fully integrated in the development and implementation of our foreign policy. We are trying to carry out that mission in three principal ways.

Global Approaches

First, we are committed to global economic engagement and to building and modernizing the economic architecture for the post-Cold War world. We are aiming for an international system that is more open, more market-oriented, and that promotes world prosperity and world peace. To meet the challenges of the 21st century, we must ensure that we reach the year 2000 with an open, market-oriented world trading system, a stable and transparent world financial system, and global institutions that can effectively integrate developing countries and the former Communist world into the global mainstream.

The centerpiece of the Administration's policy of international economic engagement is the World Trade Organization (WTO). The WTO Uruguay Round agreement is the most far-reaching trade agreement in history: it will modernize the international trading system; significantly reduce tariffs and non-tariff barriers; expand the trade regime to services, intellectual property, and investment; and cover agriculture in a meaningful way for the first time.. The new WTO will provide a solid foundation for the open, multilateral trading system -- a system that will allow regional arrangements like the EU, NAFTA or APEC to flourish, but keep the world economy from breaking into costly, exclusionary economic blocs.

We have also taken the first steps towards a thorough overhaul of the world's monetary and development institutions. At the June

G-7 Summit in Halifax, leaders agreed to a two-pronged approach to reducing global instability:

- o crisis prevention, through IMF "early warning mechanisms" and a long-term drive for greater transparency and better regulation in both global and national financial markets; and

- o crisis management, through a new IMF emergency financing mechanism coupled with substantially increased resources for the IMF.

Leaders also endorsed reforms of the multilateral development banks and the UN development system to make development assistance work better.

Bilateral Approaches

We also are busy on the bilateral front. We continue to level the playing field and provide new opportunities for our companies through our efforts in the U.S.-Japan Framework talks, market access discussions with China, and formal economic dialogues with key Asian economies like Korea, Taiwan, Thailand and India.

The issues are tough and the problems can't be solved overnight. We will have difficult moments, ups and downs, as we work to convince our trading partners that the Clinton Administration means business: we expect the same opportunities for our firms in foreign markets as our trading partners enjoy in ours. But as we have shown in the case of Japan, we are committed to finding solutions, and making those solutions produce results in the market.

We will continue to work aggressively for the removal of barriers to U.S. trade and investment throughout Asia. In addition, we at the State Department, working with other agencies, are committed to promoting US business interests a variety of other means. These include advocacy efforts in support of key projects, and day-to-day assistance to US companies facing practical "doing business" problems abroad in such areas as intellectual property rights, tax and regulatory regimes.

Regional Approaches

We also need regional approaches to expand business opportunities, promote economic growth and secure benefits for the American people. We see positive regional policies as a way to ensure that U.S. business is firmly rooted in those dynamic parts of the world that are so important to our economic future. So, in addition to our efforts to sustain and strengthen an open,

multilateral trading system, the Administration is revitalizing and expanding U.S. economic relations with the three most important economic regions in the world -- Western Europe, Latin America and the Asia Pacific. In Asia, our efforts to build a new architecture have centered on the Asia Pacific Economic Cooperation forum.

Evolution of APEC

Let's start with some history. APEC first met in Australia in 1989 as an informal economic dialogue among twelve member economies. Beyond a general economic focus, the group had no stated mission or goal. We have come a long way since then.

APEC has expanded from 12 to 18 member economies. It now includes the vibrant Pacific economies of Mexico and Chile, and those of the Peoples' Republic of China, Hong Kong and Chinese Taipei -- one of the world's most powerful economic areas. Collectively, APEC's members represent one half the world's people and one half its annual economic output.

APEC now has a structure: a small secretariat in Singapore, a policy making process capped by annual leaders meetings, and most importantly in terms of day to day business needs, three committees and ten active working groups. APEC's working groups strongly encourage active private sector participation, and focus on ways to make it easier to do business, in sectors such as transportation, telecommunications, or energy. Yet the U.S. contribution to APEC's annual budget is only 580,000 dollars. It is one of the best deals the American taxpayer gets.

APEC also has a customer. APEC is not for governments. It is for business. Through APEC, we aim to get governments out of the way, opening the way for business to do business. It is our goal to make APEC the most user friendly forum in the world. That is why business participates in APEC's working groups. That is why APEC established a business advisory group -- the Pacific Business Forum -- to advise APEC leaders on business priorities and provide a vision for APEC's future. And that is why increasing the role for the private sector in APEC is a key objective for this year's meetings in Japan. The Pacific Business Forum will deliver its own "Business Blueprint for APEC" to Prime Minister Murayama in the fall.

How does APEC carry out this mission? Let me give you some specific examples.

With the establishment in 1993 of a new Committee on Trade and Investment, or CTI, APEC launched an extensive new trade and

investment facilitation effort. Its goals are to simplify and harmonize customs procedures and standards, identify administrative barriers to trade, implement a set of non-binding investment principles and work to harmonize Uruguay Round implementation among APEC member economies.

Much of APEC's most important work, in terms of solving practical, daily "doing business" needs, takes place in the day-to-day activities of its ten working groups.

For example, APEC's working groups have published customs, investment, telecommunications and transportation guides. The guides provide information which make regional regimes and regulatory environments more transparent. APEC will use these guides to analyze "best practices", identify bottlenecks, and work toward harmonization of standards and regimes.

APEC's Energy Working Group has held seminars and training courses in the use of clean coal, providing new market opportunities for American environmental and alternative energy companies. The APEC telecommunications working group and the recent meeting of telecommunications ministers has agreed on guidelines for harmonizing equipment certification, establishing principles to harmonize certification of this multi-billion dollar regional market. In APEC's customs working group, work is underway to speed movement of air express shipments by creating an electronic system to replace paper tracking and clearance systems. APEC transportation ministers met for the first time last month in Washington to identify ways to improve and expand the region's transportation system to better support a freer flow of goods, services and people in the region. Australia will host the second meeting of ministers involved with small and medium businesses in order to find ways to expand export opportunities for this sector of the business community.

These practical efforts directly reflect business's input in the working groups, and APEC's desire to tackle the nitty gritty but important issues confronting companies doing business in the region.

What We Expect in November

APEC reached a turning point with President Clinton's hosting of the first-ever APEC economic leaders meeting at Blake Island in 1993. With that meeting, APEC developed a guiding vision. APEC announced its commitment to more open trade and investment, application of free market principles and the concept of "open regionalism." At their meeting last year in Bogor, Indonesia, leaders gave life to the Blake Island vision by calling for the

achievement of free and open trade in the Asia Pacific by the year 2020. By this, we mean not a formal trade agreement, but rather an effort to achieve freer trade through promotion of more open systems that pave the way for business to do business. These two meetings transformed APEC from a dialogue forum to an action-oriented, results-producing forum.

This year's Ministerial and leaders meetings, under the chairmanship of Japan, hold special promise. We expect that further progress in advancing our vision of the Pacific's economic future will emerge this year. Japan has said it will use the Osaka meetings to establish concrete goals for open and GATT-consistent trade and investment liberalization in the region. The United States is supporting Japan in this effort.

Based on our 1994 free trade pledge, APEC members are working on an action agenda for the leaders to review at their meeting in Osaka this November.

We expect the agenda to include initial liberalization steps; progress in lowering some business transaction costs, for example announcements on streamlining customs procedures; and a blueprint for free and open trade and investment. This blueprint would go beyond tariff reductions to address broader non-tariff and structural barriers in the region, e.g., cooperation toward strengthened intellectual property rights, strengthened disciplines in government procurement, greater transparency of rules and rulemaking, etc. It would address the concerns and needs of APEC members at different levels of development. The blueprint would also have to define how the process of moving towards freer trade in the region would be consistent with GATT and with APEC's commitment to "open regionalism."

We also hope that APEC leaders in November will endorse establishment of a new, permanent business sector advisory body to APEC. We want business to provide the expertise and views necessary for APEC to define its objectives and focus its work. The litmus test for APEC's success will be whether its work has practical relevance to the business community -- whether APEC removes impediments, creates opportunities, and develops a genuine sense of community in which all can do business.

Conclusion

Through the WTO, APEC and our bilateral economic dialogues, we are working to lay the groundwork for U.S. business to seize the opportunities in Asia's economic boom. Our economic future requires greater U.S. business involvement in Asia, competing and leading in the world's fastest growing markets.

APEC is a work in progress, one which holds the promise to help us set the stage for the future. APEC provides a platform for achieving genuine economic integration in the region based on market driven forces. APEC members increasingly see that market-oriented policies offer the best chance to attract foreign capital, generate domestic savings and stimulate innovation -- all the ingredients that are needed for sustained economic growth and that are the elemental building blocks for any Pacific community. We look forward to working with American business and the Congress in developing APEC as a key building block of that community.

DEPUTY UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON, D.C. 20508

AMBASSADOR CHARLENE BARSHEFSKY

Ambassador Charlene Barshefsky was appointed Deputy United States Trade Representative by President Clinton on May 28, 1993. She plays a pivotal role in developing and pursuing the Administration's trade policy objectives. In her capacity as a sub-cabinet official, she has been instrumental in achieving multiple trade agreements and investment treaties. Her responsibilities include a wide range of regional and functional areas including the Asia Pacific region, Latin America, intellectual property, investment and sectoral areas.

Throughout Asia, Ambassador Barshefsky has pursued bilateral and multilateral trade agreements and negotiations to increase market access. Through bilateral, regional and multilateral fora, Ambassador Barshefsky has forged an opening for U.S. goods and services entering Asian markets. In U.S. - Japan trade relations, Ambassador Barshefsky has been a key policy maker and negotiator of the comprehensive "Framework" agreement. Within USTR, she is a key decision maker and policy innovator on a host of sectoral trade issues with Japan, including semiconductors, computers, supercomputers, paper, glass and wood products. With respect to market access and intellectual property rights with China, Ambassador Barshefsky has been instrumental in achieving the gradual, but steady opening of the Chinese market for priority U.S. exports. In addition, she has opened bilateral negotiations with China on market access for services, including insurance and value-added telecommunications. Ambassador Barshefsky has been instrumental in formulating the DEC process in Korea and the Alliance for Mutual Growth with the ASEAN countries. She also guides the formation of U.S. trade and investment policy in connection with the Asia Pacific Economic Cooperation (APEC) forum.

With the rapid growth of U.S.-Latin America trade, Ambassador Barshefsky has led the Administration's efforts to develop bilateral and multilateral trade policies and negotiations with the region in a variety of market access, investment and sectoral areas. She has been responsible for pursuing the CBI Parity initiative as well as promoting policies that ensure the adequate and effective protection of intellectual property rights within the region.

In addition to these responsibilities, Ambassador Barshefsky chairs the sub-cabinet Trade Policy Review Group and participates in all aspects of the administration's decision making process.

Prior to her appointment, Ambassador Barshefsky was a partner in the Washington, D.C. law firm of Steptoe & Johnson. She specialized in international trade law and policy for 18 years and co-chaired the firm's large International Practice Group. Her practice concentrated on: (1) the representation of domestic and foreign clients in international trade-related administrative and judicial litigation in the United States and foreign countries; (2) advise and counseling to clients in connection with U.S. government export and import regulations and the development of global international trade strategies; (3) representation of clients in connection with trade policy and legislative initiatives before Congress and the Executive branch; and (4) representation of clients with respect to market access issues.

Both at her tenure at the Office of the United States Trade Representative and at Steptoe & Johnson, Ambassador Barshefsky has published, lectured and testified extensively on U.S. and international trade policy and laws. Ambassador Barshefsky's professional affiliations and activities are numerous. She was a Vice Chair of the International Law Section of the American Bar Association as well as a member of its governing Council. Ambassador Barshefsky chaired the U.S. Court of International Trade Advisory Committee by appointment of the Chief Judge, and served as an initial roster member of the Chapter 19 Canada-U.S. Dispute Resolution Panels under the Canada-U.S. Free Trade Agreement. She served on the editorial advisory boards of the International Trade Corporate Counsel Advisor and the European Business Law Review. She also has served as a board member of the International Legal Studies Program at American University.

Ambassador Barshefsky is a member of the District of Columbia Bar and has been admitted as a member to the U.S. Court of International Trade; U.S. District Court, District of Columbia; and U.S. Court of Appeals, D.C. Circuit. She graduated from the University of Wisconsin and the Columbus School of Law at the Catholic University in Washington, D.C., having received numerous academic honors and awards.

Ambassador Barshefsky is married to Edward B. Cohen. The couple resides in Washington, D.C. with their two daughters.

**TESTIMONY FOR DEPUTY USTR CHARLENE BARSHEFSKY
BEFORE HOUSE COMMITTEE ON INTERNATIONAL RELATIONS'
SUBCOMMITTEES ON ASIA AND THE PACIFIC
AND INTERNATIONAL ECONOMIC POLICY AND TRADE
Tuesday, July 18, 1995**

Introduction

I would like to begin by thanking Chairmen Bereuter and Roth for holding this hearing on the Asia-Pacific Economic Cooperation forum, or "APEC." USTR is pleased to have the opportunity to testify on APEC, which we view as a key initiative in furthering U.S. interests and fostering constructive economic relationships in the Asia-Pacific region, the fastest growing region in the world.

Importance of APEC

APEC is an economic forum composed of 18 of the world's most dynamic and diverse economies, all of which rim the Pacific.¹ APEC member economies and our relationship with them represent an important part of our economic future. APEC economies accounted for over half of the world's GDP in 1994. Economic growth rates in this region averaged 5.2 percent in 1994. However, some growth rates exceed these levels quite substantially. For example, while Japan and Canada have generated modest growth rates in recent years of 0.7 percent and 4.5 percent, respectively, China's growth rate in 1994 was 12 percent, Singapore grew at 10.1 percent, Malaysia at 8.5 percent, and Korea at 8 percent. Several of the world's most populous countries -- China, Indonesia, Japan, and Mexico -- are represented in APEC. All APEC nations have growing middle classes and rapidly improving levels of education -- both important elements in improving their ability to trade and invest with the United States in the future. Our cooperative ventures with all these nations also serve to reinforce the on-going evolution of our national character as a Pacific, as well as an Atlantic nation.

The growth and dynamism of the APEC region has led to an explosion of trade with the United States. East Asia is the number one export market for U.S. products. U.S. merchandise exports to APEC countries totaled \$304.8 billion during 1994. This accounted for 60 percent of total U.S. merchandise exports. Last year our exports to APEC nations grew by almost 15 percent; export growth this year exceeds 17 percent. We often focus only on our exports to Japan, or perhaps China, but our trade is growing rapidly with the region as a whole. One recent projection shows that Asia, excluding Japan, will be our largest export market by the year 2010, amounting to roughly \$250 billion in U.S. exports.

¹APEC member economies include the following: Australia, Brunei Darussalam, Canada, Chile, the Peoples Republic of China, Indonesia, Hong Kong, Japan, the Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, the Philippines, Singapore, Chinese Taipei (Taiwan), Thailand, and the United States.

Despite these optimistic figures, no one can deny that APEC economies also represent the region with which we have our most substantial trade deficits. Over 85 percent of our global trade deficit in 1994 was with APEC nations. Japan and China are responsible for almost three-quarters of this deficit, with most other players shifting between surplus and deficit year-to-year. We have been addressing the problems related to our deficits with Japan and China bilaterally, as you know. We have made a significant step forward with the conclusion of our recent agreement on trade in autos and auto parts, which constitutes a large portion of our deficit with Japan. We are working with China on market access bilaterally and in the WTO accession context. We will continue to work on these and other trade problems bilaterally and in the WTO, but APEC may also be able to play a long-term role in improving our access to these markets.

The only regional economic institution in the Asia Pacific of its kind, APEC serves to complement, not to replace, U.S. multilateral and bilateral foreign policy objectives and trade and investment liberalization. Our commitment to addressing our trade problems multilaterally, where possible, and bilaterally, where necessary, remains steadfast. However, APEC provides a superb opportunity to build upon efforts in these other fora and to advance trade and investment facilitation and liberalization further in a manner that supports our overall goals, supports U.S. business, and anchors the United States in the Pacific for the long term.

In my testimony today, I will focus on APEC's work on trade and investment issues. However, I would like to begin by touching on APEC's history to explain the context in which APEC's current work is proceeding.

History and Context

While APEC had existed since 1989, President Clinton provided bold leadership and a new direction for APEC by hosting the first meeting of APEC Leaders in 1993 in Seattle. The Seattle meeting set out a broad vision of an Asia-Pacific community of nations. This meeting also was critical to evolving APEC's role as an institution committed to trade and investment facilitation and liberalization, not just a "talk shop." Since Seattle, the institution has gained stature, found greater direction and dramatically expanded the scope and nature of its activities, particularly those related to trade and investment policy.

The energy and policy direction created by the Seattle Leaders' meeting was instrumental in President Soeharto's decision to advance the Seattle vision further at the second Leaders' meeting last year in Bogor. In 1994, APEC Leaders further refined their vision and established an explicit goal of free and open trade and investment by 2010 for industrialized members and 2020 for developing members. Bogor also supports the on-going goals already embraced by APEC -- economic cooperation, largely through technical assistance, and business facilitation, especially through harmonization or convergence of trade-related rules and procedures.

Building on the dynamic forces generated by the Asia-Pacific business community and on the trends in the region toward unilateral liberalization and deregulation, APEC is approaching liberalization through a unique integration of practical, concrete business facilitation steps; technical assistance and cooperation; and trade and investment liberalization. The Bogor Leaders vision of free and open trade and investment in the Asia-Pacific region was the start of a long-range process. In the earliest stages, this vision can be translated into producing "ever freer trade and investment" in the region as well as into practical steps to make it easier to do business in the region. As APEC operates on consensus and represents countries at varying levels of development, implementing the free trade and investment vision presents some special challenges and opportunities.

This November in Osaka, the site of the third Leaders' and Ministers' meetings, we expect APEC to take another step in advancing the Leaders' vision by outlining some of the substance, the specific objectives, and the process for reaching the central freer trade and investment goal.

Preparations for Osaka

APEC recently held a series of Senior Officials' meetings in Sapporo, Japan. This is the third in a series of meetings this year designed to advance APEC's work program and develop what is being called the APEC action agenda, or blueprint, to realize the Bogor vision and to prepare the results of the Osaka meeting. Although work is not yet completed, we believe several key steps will be taken to advance APEC's work and the Leaders' objectives, including development of the following:

- (1) the mid-/long-term plan for achieving free trade and investment by a date certain -- the action agenda; and
- (2) concrete business facilitation initiatives in areas such as customs, standards, telecommunications, and transportation.

In addition, members are discussing how they can each demonstrate their commitment to the Bogor vision in the immediate term by promoting steps that advance trade and investment liberalization and promote the more efficient operation of their economies. Such steps may include accelerating implementation of some of the Uruguay Round results -- perhaps tariffs or rulemaking provisions like those in the TRIPs Agreement -- as well as significant deregulation steps taken this year.

Action Agenda

The action agenda is viewed as the primary outcome of the Osaka meeting. While the details of the action agenda are still being developed, APEC Senior Officials, in

conjunction with Japan, which is chairing APEC this year, have settled on a broad outline as a result of their meetings held thus far this year. This outline will likely include the following elements: key principles that will guide APEC's liberalization efforts; business facilitation, cooperation/technical assistance, and policy/liberalization steps that APEC members will take over time to achieve the free trade and investment goal; and approaches or processes to be used over time to implement these steps. APEC Senior Officials are currently discussing all of these elements.

Principles

The broad principles that are likely to be included in the action agenda will establish parameters for APEC's trade and investment liberalization plans. At present, a number of principles are under consideration. Some that are particularly important to the United States include the following:

- (1) GATT/WTO consistency - APEC arrangements will be GATT/WTO consistent and will strengthen the multilateral trading system;
- (2) common start date and continuous contribution - all APEC members will begin the liberalization process together and continue to contribute throughout the 1996-2010/2020 timeframe;
- (3) comparability - offers of liberalization will be conditioned on achieving a balance among all APEC members' offers of liberalization; and
- (4) monitoring - the action agenda and progress made toward its implementation will be subject to on-going review, perhaps annually or at fixed future points.

Other principles on comprehensive coverage and standstill are also being discussed.

Substance

USTR, in conjunction with the Departments of State and Commerce, has coordinated an intensive interagency review to define initially what the United States would like to see in the action agenda. In formulating U.S. views on the substance of the action agenda, we are consulting with the Congress, with our business sector advisors, and with the broader business community actively engaged in trading with APEC economies. We welcome this opportunity to expand our dialogue with Congress on the broad range of APEC activities and on the action agenda.

To achieve the goal of free trade and investment, the United States is encouraging APEC to include in the action agenda a broad range of issues such as the following:

- (1) market access (tariffs and non-tariff measures);
- (2) investment;
- (3) standards and customs;
- (4) implementation of the Uruguay Round Agreements;
- (5) services (telecommunications, transportation, tourism, professional, financial, and audio/visual);
- (6) intellectual property rights;
- (7) government procurement;
- (8) deregulation;
- (9) competition policy;
- (10) dispute mediation (U.S. focus on commercial);
- (11) rules of origin;
- (12) human resource development;
- (13) environment;
- (14) energy; and
- (15) small and medium enterprises.

For each of these issue areas, we are also advocating that the action agenda include mid- to long-term objectives; key "milestones," or building blocks to measure progress toward reaching these objectives; and some concrete steps APEC could take toward the objectives over the next couple of years.

Processes

APEC members are considering a number of possible approaches or processes that could be used to implement the plan for liberalization in each of the areas just cited. Some are based on agreement on common guidelines, followed by implementation by each economy. Others focus more on collective, APEC-wide action (all APEC members agree to do "X" by "Y" date). A third approach outlines potential APEC work to support WTO activity. The United States believes that there is no one approach versatile enough to implement successfully an objective as far-reaching as free and open trade and investment. Furthermore, we believe that the liberalization process on any one issue area will evolve over time and different approaches will be appropriate at different stages in the process. Finally, the United States has worked hard over the past several months to shift the focus in APEC from the question of approach, *i.e.*, how to implement the action agenda, to the question of substance, *i.e.*, what the action agenda will contain.

Other APEC Trade and Investment Activities

In addition to the action agenda, APEC has an active on-going trade and investment agenda. In Seattle, APEC Leaders agreed to a package of improvements to Uruguay Round tariff offers. This package augmented the zero-for-zero offers already on the table and demonstrated APEC members' commitment to the successful completion of the Uruguay Round. Since Seattle, APEC has further complemented multilateral efforts on trade and investment. Through a series of seminars coordinated by the United States, APEC has educated its members about the specifics of implementation of the Uruguay Round Agreements, thereby helping to ensure timely, full, and faithful follow-through on Uruguay Round commitments. In addition, APEC has provided a forum for discussing newer trade issues, including some not currently covered by the WTO, such as competition policy. Finally, APEC has supplemented U.S. bilateral initiatives by (1) encouraging concrete business facilitation initiatives, such as harmonization of customs procedures and simplification of standards-setting processes; and (2) coordinating technical assistance in areas such as enforcement of intellectual property rights protection. These programs are likely to expand and intensify following adoption of the action agenda.

Conclusion

APEC Leaders have presented members with a tremendous challenge, which all are taking seriously. The United States has made a great deal of progress toward building consensus on substantive U.S. recommendations for the action agenda. In addition, the recent meetings in Sapporo, Japan brought us closer to APEC agreement on the applicability of a variety of approaches to the implementation of the action agenda. Although we have made some headway on general principles to guide the liberalization process in APEC, we anticipate a great deal more discussion on principles, and in addition, on processes and substance, during the remaining meetings of Senior Officials before November.

As chair of the APEC process this year, Japan has a difficult task ahead in leading this effort. There is broad support by APEC members for the implementation of Bogor, but the devil is in the details, and the details are just now being addressed.

THE STERN GROUP INC.

INTERNATIONAL TRADE ADVISORS

PAULA STERN

The Honorable Paula Stern is president of The Stern Group, an economic analysis and trade advisory firm in Washington, D.C.

A distinguished scholar and a former chairwoman of the U.S. International Trade Commission (ITC), Dr. Stern advises businesses on trade issues that affect their competitiveness in the international economy. She serves on the boards of directors of the Westinghouse Electric Corporation, Harcourt General, and Duracell International, Inc. During her years at the ITC, as a commissioner from 1978-1987 and as chairwoman of the 500-person agency from 1984-1986, Dr. Stern analyzed and voted on over 1000 trade cases involving a broad range of industries and problems. At the time, she was the second highest ranking woman in the U.S. government.

Dr. Stern is a member of the President's Advisory Committee for Trade Policy and Negotiations and the Advisory Committee of the U.S. and Foreign Commercial Service. She served as Senior Campaign Advisor on trade and international economic matters to President Clinton. Currently she is Alkire Chairholder in International Business at Hamline University and Senior Fellow at the Progressive Policy Institute. She is a member of the Trilateral Commission, the Council on Foreign Relations, the Committee for Economic Development, the Carnegie Council on Ethics and International Affairs, and the Inter-American Dialogue.

Dr. Stern served as a legislative assistant to U.S. Senator Gaylord Nelson from 1972-1974 and as a senior legislative assistant from 1976-1977. In the years between, she was a guest scholar at the Brookings Institution where she wrote *Water's Edge - Domestic Politics and the Making of American Foreign Policy*, a well-received book on Congressional-Executive relations in foreign policy making. In subsequent years, she was also a Council on Foreign Relations Fellow and a Senior Associate at the Carnegie Endowment for International Peace.

Her writing on trade and foreign policy, Congress, women's issues, and U.S. relations with Japan, the Soviet Union, the Middle East, Latin America, Asia and Europe have been widely published in scholarly and more popular journals. She is also a frequent public speaker and television commentator on these issues.

In addition to sitting on the board of the Overseas Development Council, The Jerome Levy Economics Institute of Bard College, the U.S. Foundation for International Economic Policy, the Atlantic Council of the U.S., Dr. Stern was also a presidentially appointed member of the board of directors of the Inter-American Foundation. In 1993, she was the recipient of the Directors' Choice Award for Leadership presented by The National Women's Economic Alliance Foundation. She served on the advisory panel for the Congressionally mandated National Academy of Sciences' review of national security export controls on technology transfer and the advisory panel of the U.S. Congress' Office of Technology Assessment's study on Technology, Innovation, and U.S. Trade. Dr. Stern was both a member and senior advisor of the Trade Policy Subcouncil of the bipartisan federally mandated Competitiveness Policy Council; she prepared the Council's proposals for reforming U.S. international economic policy making which were delivered to the Congress and the President.

Born in Chicago, Illinois and raised in Memphis, Tennessee, Dr. Stern received a B.A. from Goucher College in 1967, a M.A. in regional studies from Harvard in 1969, and a Ph.D. in international affairs from Tufts University's Fletcher School of Law and Diplomacy in 1976. She has received honorary degrees in Law and Commercial Science from Goucher and Babson Colleges respectively and is a recipient of the Alicia Patterson Journalism Award.

3314 Ross Place, NW
Washington, D.C. 20008
Tel: (202) 868-7884
Fax: (202) 868-7891
e-mail: PALondon@aol.com

THE STERN GROUP, INC.

3314 Ross Place, N.W.
 Washington, D.C. 20008
 Telephone: (202) 966-7894
 Facsimile: (202) 966-7891
 E-Mail: PALondon@aol.com

**ASIA-PACIFIC ECONOMIC COOPERATION (APEC)
 A Valuable Instrument For Positive Engagement**

**Written Statement of
 The Honorable Paula Stern¹
 Subcommittee on Asia and the Pacific
 and the Subcommittee on International Economic Policy and Trade
 of the Committee on International Relations
 of the U.S. House of Representatives**

July 18, 1995

Chairmen, members of the Committees. Thank you very much for inviting me to testify before you today. I appreciate the chance to present my views on the role the Asia Pacific Economic Cooperation (APEC)² forum can play in achieving positive economic engagement of the United States in the dynamic markets of the Asia-Pacific region in this critical period when the fulcrum of power -- military and economic -- shifts, at least relatively, from the Atlantic to the Pacific.³

¹ Paula Stern, President of the Stern Group, Inc., an international advisory firm, is a former Chairwoman of the U.S. International Trade Commission and a member of the President's Advisory Committee on Trade Policy and Negotiations (ACTPN). She acknowledges R. Will Planert of the law firm of Kaye, Scholer, Fierman, Hays & Handler for assisting in preparation of this text.

² The eighteen members of APEC, created in 1989, are: Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, Taiwan, Thailand, and the United States.

³ To quote Lee Kuan Yew, Senior Minister of Singapore:

(continued...)

Let me begin by revealing at the outset my bias: I believe that the success of American foreign policy-making -- in the Asia-Pacific region or anywhere -- should be measured by how it enhances American economic prosperity and maintains the United States' global leadership role. Thus, the seemingly arcane topic of APEC is part of the much bigger issues of (1) the new role for the U.S. in a new post-Cold War era in the Asia-Pacific region; and (2) the importance of the role currently played by foreign trade in the U.S. economy. Some statistics illustrate the importance of foreign trade to U.S. prosperity:

- The United States is the world's largest exporter, with 12.8 percent of all global trade, as compared to 10.5 percent for Germany and 9.9 percent for Japan.
- U.S. exports, according to the latest Department of Commerce estimates, are projected to experience double-digit growth in 1995, up from 5 percent to 7 percent as recently as one year ago.
- Foreign trade employs millions of Americans, primarily in our most dynamic and competitive industries. Wages in these industries are higher than the national average.

These trade benefits could not have been achieved without the *bipartisan* cooperation that marked 50 years of post-war U.S. trade policy and finally brought us NAFTA and the WTO. And these kinds of results cannot be assured for the future unless our elected leaders step into the shoes of the leaders who came before. Two months ago, I had the privilege of testifying before two other committees of the House of Representatives on the need for fast track authority to

(...continued)

In the next twenty years the economic center of gravity of the world is going to shift from the Atlantic to the Pacific as the combined GNP of East Asia outweighs that of the United States and the twelve members of the European Community combined.

Lee Kuan Yew, "East Asia Can Be North America's Economic Locomotive," *Global Viewpoint*, p. 1485.

equip the U.S. President, whoever he (or she) may be, to tackle economic problems and to seize market opportunities through negotiation with our overseas trading partners. *Today, I would specifically like to focus on the opportunities in the Asia-Pacific and why APEC is a valuable, although not sufficient, instrument for U.S. policy for the 21st century, the century of the Pacific.*

I. The Economic Stakes Are High

The economic stakes for the United States in the Asia-Pacific region are high. Through the 1990s, Asia will account for half of global trade growth, and by the year 2000, the East Asian economies are projected to account for one-third of global economic output. In almost every respect--long-term market growth, overall market size, composition of U.S. exports to the region, per capita consumption of U.S. exports--the Asia-Pacific region represents the best prospects for U.S. exports now and in the future.

The "Asian Economic Miracle" and the attendant idea of a "Pacific Century" have become almost clichés. But the breathtaking reality of the economies of Japan; the Four Tigers (South Korea, Singapore, Taiwan, and Hong Kong), averaging almost 6 percent annual growth over the course of a generation; China since 1979; and the "new tigers" of Malaysia, Thailand, and Indonesia (and soon, perhaps Vietnam), is a tribute to the Asian model of export-led which has shattered the previous North-South paradigm. To be sure, the Asian economic miracle since the end of World War II relied on the United States to be the market of first and last resort for Asian export-led development. Today, however, East Asia itself has become an engine of the global economy and a defining reality of the post-Cold War international system. *The challenge for the U.S. is how to balance competing interests and utilize its many assets--economic, political, strategic--in this region as in the Atlantic to help shape the emerging order and assure that Washington is woven into its political and economic fabric.*⁴

⁴ For further discussion of this issue, please see Robert A. Manning and Paula Stern, "The Myth of the Pacific Community: Thinking the Unthinkable About the U.S. in Asia" *Foreign Affairs*, Nov.-Dec. 1994; Paula Stern, "The Chimera of the Pacific community," reprinted in *Message from Asia*, International Symposiums in Bangkok, Thailand, July 5-6, 1995; Paula Stern, "U.S. Engagement In Asia and APEC: Building-Path to Freer Trade Brick by (continued...)

II. Timing Is Everything

For the United States, there is an unfortunate bit of timing at work. U.S. power in the Asia-Pacific region is in relative decline at a historical moment when the American stake in the Pacific region is rising. Two pillars of American historic predominance in Asia, (i) U.S. markets and economic presence and (ii) the predominant U.S. military presence and bilateral alliances, are both diminishing assets. A further irony is that while in *absolute* terms U.S. economic engagement in the Pacific is steadily increasing, in *relative* terms it is declining. What stands out in the region is a shared unease at perceived trends: a contraction of the central economic and military role played by the U.S., simultaneous with the rise of China and Japan as multidimensional powers. Asian calculations tend to be based on long-term trends; adjusting to and compensating for these trends animates Asia-Pacific efforts to shape a post-Cold War order in the region.

Perhaps the most remarkable aspect of Asia-Pacific economic dynamism is the exponential advance over the past decade of "horizontal" integration of an intra-Asian trade and investment network. As each East Asian economy has moved up the ladder of development it has tended to accelerate the growth of the economies behind it at the next tier of development. This pattern is evident in the trade and investment figures. Intra-Asian trade now accounts for about 45 percent of East Asia's total trade. This intra-Asian integration has been facilitated by an episodic but growing pattern of trade liberalization, and by strong yen policies which have led to a surge of Japanese investment in East Asia. The long-term impact of U.S. exchange rate policies has worked to Japan's competitive advantage in East Asia in general, and, as private sector executives have told us, has made it more difficult to increase a U.S. business presence on the ground, particularly in Japan. In short, as the economic and political stakes of expanding trade with East Asia are increasing for the United States, U.S. economic power and influence in East Asia are declining in relative terms.

⁴ (...continued)

Brick" Progressive Policy Institute, November 7, 1994; Paula Stern, "A U.S. Trade Policy for the Pacific Century," Progressive Policy Institute, Nov. 11, 1993.

III. APEC: Purpose and Objectives

Having discussed the rewards available in the Asia-Pacific region and the long-term challenges faced by the United States in our efforts to attain them, I turn my attention to the strategies the United States should follow to overcome these challenges. The United States should adopt a multifaceted approach to tackle the challenges in the Asian markets.

APEC is a useful instrument, and how we expend our diplomatic and political capital in meetings at APEC is critical. Too broad an agenda for APEC would overburden this fragile organization and overshadow progress that the working groups and the business community have already made. It is critically important that the lofty goal of free trade in Asia in three decades, adopted at last year's Bogor Summit, not divert APEC from sealing discrete agreements that might serve as foundations for broader accords. APEC will mark its seventh birthday and the question must be asked now if this has been seven lean years, or seven fat years. APEC should not be satisfied with calling meetings at the summit level annually that do not achieve real, even if gradual, liberalization and facilitation in a timely fashion.

The purpose--*raison d'être*--of any regional economic grouping should be to advance prosperity beyond any achievements of a multilateral institution such as the WTO. If the standards adopted by a regional grouping are lower than the WTO, then the grouping can run the risk of diverting rather than advancing economic prosperity. An argument can be made that the APEC Seattle Declaration in 1993 helped prod the European Union and others to wrap up the protracted Uruguay Round. Now, the Uruguay Round is history, and the World Trade Organization is established. And *absent concrete results*, the vision of the Eminent Person's Group of advisors of APEC as a beacon for the world trading system could seem more a chimera than an operative reality in the trading world.

Last November, at Bogor, Indonesia, APEC leaders issued a declaration calling for a vision of free trade by the year 2020. The APEC Declaration, unlike the North American Free Trade Agreement (NAFTA), announced its objective of "free trade" without clear definitions or criteria for what that concept means. During the two years that preceded APEC's decision, I argued that what was more needed from the governments of APEC was clear direction to build a path to

freer trade in the Asia-Pacific region, brick by brick with timetables for action that were realistic to business, which has been the driving force for the dynamic progress in the Asian-Pacific market. I was particularly concerned last year and remain so now, that renewal of the President's "fast-track" trade negotiating authority may be in jeopardy. An APEC vision of broad, far-off objectives of free trade by the year 2010 for developed nations and by 2020 for developing nations should be tempered by recognition that NAFTA barely passed Congress, even though Mexico's economy is only 4 percent the size of ours. Indeed since the November 1994 election, modest but concrete achievements through APEC have become essential in order to convince Congress that granting fast track authority for Asian-Pacific-related activities will yield positive results for the United States.

Pursuing the futuristic exercise of a free trade area should not divert efforts from expanding global free trade on the one hand, and from the hard slogging of more modest building blocks in the dynamic Asia-Pacific of liberalizing trade in key growth sectors, accelerating Uruguay Round commitments in tariff and non-tariff areas, or harmonizing standards and customs procedures. Such incremental steps would likely be cheered by the business community. But absent such concrete achievements in the short to medium term, the idea of a massive free trade arrangement that would allow China and Indonesia, with their vast pools of cheap labor, to phase in reciprocal liberalization over two decades later than the U.S. is likely to raise hackles here.

Last October's President's Advisory Committee on Trade Policy and Negotiations (ACTPN), which represents business, labor, and other trade interests in the U.S., pointed out the need for APEC to achieve concrete results within a time frame that businesses could appreciate. Many U.S. companies want Washington to set achievable, short-term goals for APEC rather than focusing on grandiose, long-term objectives. The 1994 ACTPN report recommended a three-part agenda for the 1994 leaders summit in Bogor:

- First, that APEC should set short-term, 24-month, objectives for existing APEC working groups in areas that will make a tangible difference in private sector commercial dealings such as investment, mutual recognition agreements, and customs facilitation.

- Second, APEC should adopt equally short-term objectives for further progress in APEC on unresolved issues from the Uruguay Round, such as financial services and telecommunications.
- Third, APEC should use Uruguay Round commitments and discussions as a point of departure for further APEC work on tariffs, non-tariff barriers, intellectual property protection, and other issues in the same time frame.⁵

While the desire for free trade in the future may be desirable, I urge APEC members to seize the opportunity at the Osaka summit this year to begin to achieve that which was not achieved at Bogor. The United States can best strengthen both its position in the region and global free trade by pursuing a "building block" approach aimed at concrete, achievable goals that would transform APEC into a regional framework for enhancing trade. Again, the maxim, "timing is everything," applies as much to diplomacy as to politics and life in general (and, it goes without saying, to comedy!).

IV. A Short-Term, Brick-by-Brick, Agenda

Today, I wish to compliment the Clinton Administration for pushing an action agenda for this November's upcoming APEC meeting in Osaka that emphasizes major "milestones" that countries could achieve and for attempting to achieve timetables that are meaningful to business people. The administration is properly focusing on getting APEC members to take modest, but practical steps first, to implement the commitments made in the Uruguay Round, and, second, to initiate a dialogue on areas where we can begin to move beyond the multilateral commitments.

In addition to the ACTPN recommendation for concrete steps which apply across sectors, it might help to adopt one sector (or more) where APEC might tangibly demonstrate its ability to advance economic cooperation in a timetable that business people and the general public could appreciate. One area, for

⁵ Recommendations on APEC of the President's Advisory Committee on Trade Policy and Negotiations, October 31, 1994.

example, that is worthy of pursuit is the chemical industry. The U.S. chemical industry views APEC as a unique opportunity to improve its long-term business prospects through the Asia-Pacific region. It is considering proposing a meeting of senior chemical industry leaders from APEC countries in Singapore in early September. Such a meeting would be aimed at developing and providing to the APEC governments a list of action items from the industry's prospective. Such a list is likely to include: (i) acceleration of Uruguay Round tariff cuts, (ii) acceleration of other Uruguay Round commitments, such as protecting intellectual property rights and liberalizing foreign investment rules, and (iii) harmonization throughout APEC of customs procedures applicable to chemicals and chemical products. It is precisely this sort of concrete goal that will lead to an immediate payoff for all parties and demonstrate that APEC is worthwhile in the short and long term in advancing economic cooperation. Hopefully, we can next tackle other sectors, such as the telecommunications and information services industry, and thereby advance market access for the United States and other developed nations and enhance productivity and infrastructures throughout APEC.

V. Convincing Our Trading Partners

Now that the administration seems to be following the direction of building a path to freer trade, brick by brick, the task becomes how to convince the various other individual members of APEC that these more deliberate steps are a win-win proposition for all 18 members, whether they be big or small, developed or developing nations. Market-opening initiatives enhance the fortunes of all nations, they do not represent a mercantilistic conspiracy by developed countries to dominate vulnerable markets in developing countries. Convincing other APEC members that liberalization is self-rewarding will be hard. Reluctance on the part of several ASEAN states to embrace last year's ambitious plan for free trade by 2020 is a measure of fear of a hidden agenda by the United States. However, now that we are shifting our attention to goals in a more realistic framework, some of the most vocal developing nations, including Indonesia, Singapore, and Thailand, are also calling for APEC to deliver concrete achievements and are openly criticizing the overly cautious and vague approach to liberalization that has been sponsored by Japan's Ministry of International Trade and Industry.⁶

⁶ "APEC Sapporo Meeting Fails to Draft Trade Liberalization Proposals," *BNA*
(continued...)

The second draft of the action plan for the November 1995 APEC summit in Osaka, circulated among APEC members last month, was an important step in the right direction, and represented clear movement toward the approach advocated in the ACTPN report and adopted by the administration.⁷ However, the failure to reach agreement on these draft proposals during the working-level meetings held earlier this month in Sapporo, Japan, is an indication that much work remains to be done. Japan evidently continues to favor a "concerted unilateral" approach--in which each APEC member would prepare its own list of liberalization initiatives at its own discretion, subject only to the requirement to implement the initiatives by 2010 for developed countries or 2020 for developing countries. Even worse, under the timetable proposed by Japan, the first set of concrete measures would be tabled *next year* with actual implementation delayed until at least 1997. Reportedly, the administration is rightly opposing this flawed approach and instead demanding that APEC members agree to unified and coordinated steps toward trade liberalization in specific areas. Failure to achieve such a concrete and unified plan by this November's Osaka summit would represent another lost opportunity, and would leave us hardly farther along than we were after last year's summit in Bogor.

VI. Toward the Future: Non-Economic Benefits of APEC.

The discussion of APEC thus far has focused on economic issues and trade-related choices facing the nascent organization. But apart from the stated objective of "Asian-Pacific Economic Cooperation," APEC's membership and institutional structure may make it a particularly useful forum for addressing

⁶ (...continued)

Daily Report for Executives (July 12, 1995), A-6-7. As one leading Asian newspaper commented:

To allow each member to set its own pace of progress is to invite procrastination and, ultimately, dissensions. Dismantling trade barriers takes considerable time and effort. The time to begin is now and not 20 to 25 years from now.

"APEC's Excruciating Pace of Inaction," Bangkok Business Day, July 5, 1995, p.6.

⁷ The draft action plan is reprinted in Inside U.S. Trade (July 7, 1995).

regional political and economic issues that cannot be adequately addressed in other fora.

- APEC's membership is unique among international institutions. It includes all three Chinese entities--mainland China, Taiwan, and Hong Kong; the established and newly emerging "tigers" of Asia; the world's two great economic superpowers--Japan and the United States; and the increasingly important Latin American economies of Mexico and Chile.
- Second, APEC's institutional structure is that of a forum of economies, not a true international organization.
- Third, the upgrading of APEC to include heads-of-government sessions, begun when President Clinton invited the top leaders of each APEC economy to Seattle in November 1993, makes APEC the centerpiece of an emerging Pacific community that could lead to, over time, a formal political dimension similar to that of the G-7.
- Fourth, because APEC is a regional forum it may serve as a convenient and face-saving arena for addressing issues of market access and other U.S. concerns--for example, the continuing need for deep structural changes in Japan's economy--that otherwise would result in contentious bilateral disputes.

Consequently, the possibility exists for the top political leadership of the entire leadership of the Asia-Pacific region to address topics at APEC that go beyond technical economic and trade matters. For this to happen, however, the tensions that infect more overtly political international institutions must be avoided. It is a troubling sign, therefore, that mainland China is reportedly pressuring Japan to limit the participation of Taiwan at this November's leaders meeting in Osaka.⁸

⁸ Bureau of National Affairs, July 12, 1995.

The need for a cooperative international forum in which the full leadership of the Asia-Pacific region can participate effectively is particularly important presently as the region is experiencing several potentially troublesome political and economic currents, three of which I want to mention in particular today.

China

First, the region, indeed the world, is struggling to integrate China into a new global political and economic order. The present spiral of misunderstanding between the United States and China has a dangerous precedent in the "Guns of August" that preceded the outbreak of World War I. The history of Western civilization is that it has often been unsuccessful at peacefully integrating emerging great powers. We do not want to make China in the 1990s into what Germany was to the 1870s. I am profoundly concerned that the vacuum of leadership in China could lead to potentially dangerous miscalculations on the Chinese side. In particular, China must develop the sophistication and perspective required of a great power. China's leaders must understand that U.S. policy goals in Asia--opening markets to trade and investment, protection of intellectual property rights, support for democracy and human rights, non-proliferation of nuclear weapons--are global goals, and are not directed at "containing" China as a world power. These are goals that the United States has advanced for decades, certainly before China emerged on the world scene in its present form. As a corollary, China must also develop greater sophistication about the U.S. political system. Ours is not a mirror image of authoritarianism which prevails in China. Rather it is a system of divided power between the Congress and the Executive Branch. Individual statements, which often are playing to domestic political interests, must not be confused with official U.S. foreign policy.

The proliferation of U.S. voices on China policy--some of them advocating provocative policies such as reestablishing relations with Taiwan--is needlessly contributing to the current turmoil in U.S.-China relations. It is one thing to assert traditional U.S. values and goals. It is another to waken long-sleeping dogs for no clear purpose. There is a major difference between advancing the goals of democracy and open markets, for example, and calling for a dramatic shift in the status of Taiwan. The latter is gratuitous and could lead the United States into a military confrontation with a nuclear China in which the U.S. would be seen as having provoked the crisis.

What would be helpful is a statement to clarify U.S. intentions that the West aims not to "contain" China in the Cold War sense but to integrate China into the international system based on negotiations that take into consideration interests of both nations and the world. We welcome China into the community of nations as a great power, but there are international norms that China must adhere to. We may have differences over norms of behavior, but the United States will adhere to its values, particularly on democracy and open markets.

Japan

Second, is the absence of economic and political leadership by the region's economic superpower: Japan. Given the size of Japan's export-oriented economy, one would expect Japan to provide strong economic leadership in APEC and take the initiative in setting the agenda for regional trade liberalization. Instead, however, while the rest of East Asia continues to experience robust economic growth, Japan remains dead in the water. Four years of deflation related to the strong yen, a troubled real estate sector, and a banking system reeling from bad loans, have left Japan unwilling or unable to exercise the necessary leadership. Japan's current economic problems underscore the urgent need for structural reform of the Japanese economy. The United States cannot serve indefinitely as the only locomotive driving APEC. It is critical that Japan undertake the needed structural reforms of its economy that will increase imports from the U.S. and other Asian economies--for its own good and for that of the entire Asia-Pacific region--and to achieve its ambitions for "shared global leadership."

Impelled by the yen appreciation, Japan is increasingly moving its foreign policy emphasis from one in which it views the world through the U.S.-Japan bilateral prism to an emphasis dubbed in Japan as "Asia first." Japan's fastest growing surpluses are with its neighbors in Asia, not the United States. Japan must open its economy for the entire region, indeed, the globe. And so far, Japan seems unable to initiate the necessary structural changes for her own or others' sakes. This lack of Japanese leadership hampers progress in APEC. As stated earlier, Japan continues to delay progress in the planning for the APEC Osaka summit by pushing for the oxymoronic concept of "concerted unilateralism" in trade liberalization in place of a concrete regime of coordinated liberalization, harmonization and standardization.

EAEC

Finally, several of ASEAN countries have talked of forming an East Asian Economic Caucus (EAEC) within APEC. In my view, the same test should be applied to such subregional groupings as I enunciated earlier with regard to regional groupings: Do they advance free trade and economic integration beyond what is achievable at the regional (and multilateral) level. To the extent that the EAEC is able to push beyond APEC and achieve liberalization and standardization among its members more rapidly than can be achieved within APEC as a whole, EAEC is not a threat to our interests. However, to the extent that EAEC or other subregional groupings operate in practice to resist or hinder real, non-discriminatory market openings within APEC, these groupings serve no useful purpose and should be resisted by the United States.

VII. Conclusion

If the Pacific community idea appears more an aspiration or a convenient shorthand for U.S. engagement in the region than a functional entity, that negates neither the importance rightly attached to it by President Clinton nor possibilities--if not imperatives--of trans-Pacific cooperation. Neither does it negate the new habits of dialogue and experiments in regional institution-building by a maturing East Asia that will continue to evolve incrementally. The challenge for East Asia is to assume responsibility commensurate with its growing economic success both within the region and globally. Neither the U.S. nor East Asia will benefit by drawing a line down the middle of the Pacific.

The challenge for the U.S. is to balance competing interests and best utilize its many assets -- economic, political, strategic -- to provide sustained and consistent leadership as a first among equals and to help shape the emerging order in the Pacific with Washington woven into its political and economic fabric.

While for at least the coming two decades, the American military presence will remain key to stability in East Asia, it is the engagement of the U.S. private sector that will be the keystone of sustained American engagement in the Pacific in the 21st century. There are four guidelines critical to solidifying the U.S. position in the region and global free trade:

- Pursue a building-block approach aimed at concrete, near-term achievable goals to transform APEC into a regional framework for enhancing trade by: for example, accelerating Uruguay Round pledges negotiating major tariff reductions by the 1996 leaders meetings; harmonizing customs and certification standards and procedures; advancing specific sectors such as chemicals, and initiating talks to achieve free trade by the year 2000 in the telecommunication and information industries sector. For all its tentativeness APEC remains the focal point for governments to offer value-added to what has been largely market-driven process of economic integration.
- Forge a link between the NAFTA and Asia to demonstrate that NAFTA is adhesive, not discriminatory, and to demonstrate U.S. entrenchment in Asia.
- Further advance "open regionalism" compatible with the multilateral trade principles by sharing information and designing dispute settlement mechanisms between regional groups to assure that regional rules and regulations reinforce open, non-discriminatory regionalism, not regional trade blocs.
- Develop sources of domestic support and congressional reinforcements to underpin U.S. engagement in Asia.

RICHARD O. LEHMANN

Richard O. Lehmann is director of public affairs. He joined IBM in 1977 and has since held several public affairs and external relations positions. From 1984-1987, he was director of external and corporate programs, Asia/Pacific Group headquarters, Tokyo. He became director of public Affairs (trade and investment) in 1988. Before joining IBM, he served as associate director, foreign trade policy at the Chamber of Commerce of the United States.

He chairs the Asia Trade Group of the National Association of Manufacturers; serves on the U.S. Government's Industry Sector Advisory Committee for Electronics; and is a board member of the Japan-America Society of Washington.

Mr. Lehmann has a B.A. from Oberlin College, a diploma from the Dutch School of International Business and an M.A. from the Johns Hopkins University School of Advanced International Studies.

TESTIMONY OF

RICHARD O. LEHMANN

Director of Public Affairs

INTERNATIONAL BUSINESS MACHINES CORPORATION

**CHAIRMAN OF THE ASIA WORKING GROUP
OF THE
NATIONAL ASSOCIATION OF MANUFACTURERS**

BEFORE

**THE SUBCOMMITTEE ON ASIA AND THE PACIFIC
AND**

**THE SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE
OF**

THE HOUSE COMMITTEE ON INTERNATIONAL RELATIONS

ON

THE ASIA-PACIFIC ECONOMIC COOPERATION FORUM (APEC)

WASHINGTON, D.C.

JULY 18, 1995

Chairman Bereuter, Chairman Roth, Members of the Subcommittee, my name is Richard Lehmann, and I am the Director of Public Affairs for IBM. I am also the chairman of the Asia Working Group of the National Association of Manufacturers. I appear today on behalf of the NAM. For my company and for the NAM, I would like to thank you for organizing these important and timely hearings and for giving us this opportunity to express our views.

The NAM has consistently supported the APEC process, and we continue to believe in its importance. We are concerned, however, that if the Osaka meetings this fall do not produce clear and tangible progress toward the agreed goal of regional free trade by 2020, U.S. business confidence in the APEC process will be undermined. These meetings represent a challenge for all APEC countries, but they are a special test for Japan, which will host the Ministerial and Leaders' meetings.

MANUFACTURERS AND TRADE

The National Association of Manufacturers has a profound interest in anything that bears on international trade and on the competitiveness of American manufacturers. The two are linked together and to the relationships between the United States and the other 17 members of APEC.

In 1994, for example, manufactured goods accounted for approximately 85 percent of U.S. exports and 83 percent of U.S. imports. America's total trade in goods for 1994 amounted to just under \$1.2 trillion and approximately 65 percent of that trade was with the 17 other members of APEC. (A table of U.S. 1994 trade with the APEC countries follows below.)

U.S. TRADE WITH APEC COUNTRIES IN 1994
(in \$ Billions)

<u>Country</u>	<u>Exports To</u>	<u>Imports From</u>	<u>Balance</u>
Australia	9.8	3.2	6.6
Brunei	0.4	0.05	0.3
Canada	114.4	128.4	-14.0
China (PRC)	9.3	38.8	-29.5
Chile	2.8	1.8	1.0
Hong Kong	9.9	9.5	0.3
Indonesia	2.8	5.4	-2.6
Japan	53.5	119.2	-65.7
South Korea	14.7	17.1	-2.3
Malaysia	7.0	14.0	-7.0
Mexico	50.8	49.5	1.3
New Zealand	1.5	1.4	0.09
Papua New Guinea	0.06	0.1	-0.05
Philippines	3.9	5.7	-1.8
Singapore	11.7	12.8	-1.1
Chinese Taipei	16.2	25.1	-8.9
Thailand	4.9	10.3	-5.4
TOTALS	313.66	442.35	(128.76)

Source: NAM from Commerce Department Data

If by the global economy one means a world in which borders pose no barriers to commerce, then it is still a long way off. If, however, one means a world in which companies must compete internationally if they are to succeed at all, then the global economy is already here. It has been for some time.

The recent report *Why Exports Really Matter!*, prepared jointly by The Manufacturing Institute, an educational arm of the NAM, and the Institute for International Economics helps explain this reality:

For some products and services, exports are not just a stimulus to survival, they are a necessary condition. Examples include large commercial aircraft, computers, heavy construction equipment, oil-field machinery and semiconductors whose export-to-sales ratios range from 30 to 77 percent across the whole U.S. industry. *Economies of large-scale production in such cases can be realized only in globally sized markets.* (Emphasis added)

APEC AND REGIONAL ARRANGEMENTS

It was not long ago that economists and others worried about creeping regionalism. The fear that regional arrangements would overshadow the WTO-centered multilateral system was especially acute before the conclusion of the Uruguay Round, when the future of the GATT itself seemed in doubt.

At this juncture, it makes more sense to acknowledge that regional arrangements are and will continue to be a reality. But the dominant arrangements are different in different parts of the world. So long as they are consistent with the WTO and do not pose new barriers to non-regional trading partners, all of these arrangements are to be welcomed.

In a 1993 statement, the NAM endorsed APEC as the "most promising of all of the organizations that have been proposed for the Pacific region." That is still the case. The United States is a global economic power, and it trades with every region of the world. More to the point, the United States is one of the most important trading nations in the Pacific region, providing a market of \$263 billion for the other countries of APEC. And that figure does not take into account U.S. imports from the Western Hemisphere APEC members, namely, Canada, Mexico and Chile.

Like Europe and the Americas, the Asia Pacific region should and will pursue regional integration. APEC, with the full involvement of the United States, is the right forum for this work. We would think it a serious mistake if the Asia Pacific countries were to attempt the process of regional economic integration without the United States.

Moreover, the process itself is important: the habit of regular consultation with the other APEC countries on commercial issues of common concern is in itself extremely valuable.

APEC includes a number of our most important trading partners, such as Japan and China. While we expect that for the foreseeable future the most important issues in our commercial relations with these countries will be handled through other fora, including both bilateral negotiations and negotiations under the auspices of the WTO, APEC nonetheless provides a useful, positive setting for discussion of some of these same topics. It also provides opportunities for generalizing gains made in bilateral negotiations.

TEST FOR JAPAN

As the Committee knows, APEC was created in 1989. It was given a tremendous push and a significantly higher profile in 1993 when the United States was in the chair and inaugurated the practice of convening an annual meeting of the APEC leaders. The second such meeting, also very successful, was held last year in Indonesia, under the leadership of President Soeharto.

This year the Japanese will be the hosts. Arguably, theirs will be the most difficult challenge to date. The broad outlines for regional free trade have been laid down. The challenge now is to demonstrate that real progress is being made toward the agreed upon goal.

There is ample reason to believe that Japan is determined to succeed. The amount of effort, for example, that the Keidanren and other Japanese business organizations have already

committed to the success of the Osaka meetings this fall is impressive. Perhaps more important, they have the right goals ... at least some of them.

A Keidanren paper on Japan's Role in the Asia-Pacific Economic Cooperation, Proposal for the 1995 APEC Osaka Meeting, contains the following very encouraging language:

Japan should commit itself to becoming a model for economic liberalization.
... We in Japan should promote imports through deregulation and otherwise open our markets in every way possible. (Bold in original)

On the other hand, the emphasis that the Japanese have given to their development assistance in the APEC context is not encouraging. APEC is about trade, not aid.

It is almost as if Japan were torn between two very different approaches to APEC. One is cooperative and emphasizes economic liberalization. In the larger sense this is a global approach to trade, because it emphasizes Japan's willingness to make the kind of changes internally that are necessary if Japan is to truly be a world leader. The other approach is competitive, emphasizes aid, and is purely regional.

We hope that Japan will choose the first option. APEC is not the proper setting for discussions of aid strategies. It is a setting that demands enhanced commitments to economic liberalization.

ITEMS OF SPECIAL NOTE AND/OR CONCERN

At this point, I should like to review for the Committee very briefly some of the individual APEC issues of concern to the NAM and its members.

Tariff Reduction. We support the call for accelerated reductions of Uruguay Round tariff cuts agreed to as part of the Uruguay Round. We hope that the fall meetings in Osaka will provide an occasion for announcing these accelerated reductions.

Customs Procedures and Information. This is an area in which APEC has made real and impressive progress. Our understanding is that, at the June meeting in Sapporo, the APEC customs working group agreed to a rapid implementation of all of the major customs agreements. These include the valuation agreement; the use of the harmonized system; and the agreement on carnets, which deals with the treatment of goods, such as samples, that are imported for brief periods and re-exported. The United States already adheres to all of these agreements, and it will be a boon to U.S. companies to have our APEC trading partners playing by these same rules.

The customs group has also made a real breakthrough in the area of information sharing. Within a few months, U.S. exporters and others will be able to obtain from the APEC Secretariat in Singapore a CD ROM disc that contains the tariff schedules for all of the APEC countries, along with the basic rules governing imports into each of these countries. An American who has something to export, and who knows the harmonized system number for his product, will be able to find the corresponding tariff rates in all 18 APEC countries.

This is an enormous breakthrough, and with luck it will prove a model for the world. I hope that the day is not far off when the WTO secretariat can provide the same information for the tariffs of all of the members of the WTO.

Trade and Investment. The GUIDE TO THE INVESTMENT REGIMES OF THE FIFTEEN APEC MEMBER ECONOMIES that was released in November of 1993 was a useful document that gave meaning to the concept of transparency in this area. The non-binding investment principles that were released later was also a constructive step. If APEC is to have any real meaning, however, as an economic arrangement, its members will need to move toward real commitments in this area and beyond the non-binding principles.

For example, limits on the use of performance requirements are not just desirable, in the long run they will be essential. But they will have to be binding or they will have no meaning.

Telecommunications. Most of the APEC countries, for example, prohibit foreign investment in the telecommunications area. The fact that there are significant commercial opportunities in telecommunications throughout the APEC region will only be an irritant to the U.S. business community if U.S. firms are not allowed to participate fully in those opportunities.

Intellectual Property Rights Protection (IPR). Few areas of commercial law are of greater importance to liberal trade than the protection of intellectual property rights. The recent agreement with China is a good first start — though NAFTA is the better model. At Osaka, we hope that the APEC members will discuss making solid regional commitments to IPR protection. They could begin by agreeing to accelerate the IPR obligations that many of them have already undertaken in the context of the recently concluded Uruguay Round.

Movement of People. Currently, each APEC country has its own set of laws and regulations concerning business visas, work permits and the payment of personal income taxes by non-permanent residents from other countries. This maze of laws and regulations poses a real barrier to business operations throughout the region. The NAM encourages APEC members to work toward harmonizing the laws and regulations that affect the more flexible movement of persons throughout the region. This will not be easy, and we in the United States will need a great deal of discussion among ourselves before we can fully engage our APEC partners on this issue.

CONCLUSION

As stated earlier, the NAM recognizes that APEC as a process is extremely valuable. But process alone will not sustain it. Without a meaningful product, namely freer trade, APEC will cease to command either the interest of business or the efforts of government.

APEC is in all of our interest. Every government and every business community throughout the 18-country region has a stake in it. No single group can ensure its success. We at the NAM will do all that we can. We urge this Committee and the Congress to monitor the APEC proceedings closely and to actively support this forum for economic cooperation on the Pacific Rim.

Thank you.

Biography

Mark Borthwick

E. Mark Borthwick is Chairman of the International Coordinating Group of the Pacific Economic Cooperation Council (PECC), an international organization of business, government, and research sectors in twenty-two Pacific Rim economies. He is also the U.S. Executive Director of PECC in Washington, D.C., having served in a variety of roles to support U.S. participation in PECC since its founding in 1980. From 1979 to 1980, Dr. Borthwick was a AAAS Congressional Fellow and staff consultant to the Subcommittee on Asian and Pacific Affairs in the U.S. House of Representatives.

Born and raised on a farm in Iowa, he received a B.A. with highest honors from Northwestern University, Evanston, Illinois in 1968. He joined the U.S. Army in 1968, serving in numerous areas of South Vietnam from 1969 to 1970 as a specialist with Army intelligence.

He joined the Sociology and Anthropology faculty at Iowa State University in 1977 after receiving a PhD in social anthropology that year from the University of Iowa. In 1978, he became a Fellow of the Duke University Roundtable on Science, Technology and Public Affairs, then moved to Washington, D.C. for his assignment in the House of Representatives.

The author of numerous articles on the Asia-Pacific, Dr. Borthwick wrote and edited a companion book to the ten-hour public television series, *The Pacific Century*. Subtitled *The Emergence of Modern Pacific Asia*, (Westview, 1992) it is the most widely adopted college textbook for Asian regional studies in the United States.

His role as Coordinating Group Chairman in PECC focuses primarily on interaction with and support of the ministerial forum on Asia-Pacific Economic Cooperation (APEC) in which PECC is the only private observer body.

**Statement by
Mark Borthwick**

**Chairman
International Coordinating Group
Pacific Economic Cooperation Council
(PECC)**

July 18, 1995

**Committee on International Relations
Subcommittee on Asia and the Pacific
and
Subcommittee on International Economic Policy
and Trade**

**Joint Hearing
on the
Future of Asia-Pacific Economic Cooperation
(APEC)**

Chairman Bereuter and Chairman Roth, let me first express my appreciation to you and your colleagues for the opportunity to participate in this important and timely discussion on APEC. U.S. official interest in the institutional development of Pacific economic cooperation was first stimulated and debated by the United States Congress in the late 1970s and early 1980s. This hearing reflects the important role that the Congress continues to play in determining how we respond to opportunities and challenges in this area.

In view of the relatively limited information that is available about the private sector involvement in APEC and, specifically, the practical interests of U.S. businesses, I would like to focus my remarks on that subject. My views are based on my role as Coordinating Group Chairman of the Pacific Economic Cooperation Council (PECC), which as the only private observer organization in APEC interacts regularly with APEC in a variety of projects to support its Working Groups and ministerial meetings.

The relationship between PECC and APEC requires some explanation since, as you know, there are two other advisory bodies to APEC: the Pacific Business Forum (PBF) and the Eminent Persons Group (EPG). The PBF, now in the second year of its existence, comprises just two business members per economy. It issues an annual report to APEC on business priorities and perspectives that affect the APEC agenda. The EPG comprises one person per economy, has an *ad hoc* status, and seeks to provide a strategic view of the future of APEC and the region. Both have provided valuable services to APEC over the last two years.

PECC is an international organization formed in 1980 and has a broader membership, comprising business leaders, government officials, and researchers in all APEC economies. It meets frequently to address a wide range of economic and trade issues and often responds to requests by APEC for specific business or research inputs. The United States is represented in PECC through the United States National Committee for Pacific Economic Cooperation (US-PECC). A brief description of how PECC

is organized and how its functions relate to those of APEC is provided at the end of this statement. This also includes a list of the joint APEC-PECC projects and programs in 1995 and 1996.

Strengths and Limitations of the APEC Process

It is useful to distinguish APEC's policy-political functions from those devoted to supporting research and implementation. The first involves political agreements among members as to future directions and initiatives in the region. Here, APEC has succeeded beyond all expectations, particularly in light of the Bogor Declaration on free trade. Yet the implementation of such policy proclamations remains a daunting challenge. As a result, the research and implementation component has lagged somewhat, not least because it is forced to take specific, concrete actions based on interpretations of the positions and principles declared by the Leaders and Ministers.

APEC is a young institution. It has grown quickly and carries large, diverse responsibilities, yet it has been given relatively limited economic or political power when viewed alongside institutions such as the European Parliament and Commission. Nor is it like the World Bank or Asian Development Bank with centralized loan funds for implementing projects. APEC's power lies with consensual politics and agreements between sovereign governments. Inevitably, it faces problems and limitations in what it can do. Two key limitations can be summarized as follows, keeping in mind that these are not "fatal" but rather conditions that form the background for assessing progress in APEC:

The Consensual Approach to Action.

To initiate any activity or to implement agendas in APEC requires a member, or group of members, to champion the activity and for other members to agree to it. If any member objects to any aspect of a proposal, then the proposal must be modified accordingly or it cannot proceed. Domestic political concerns or even jurisdictional disputes among government departments within a member economy's delegation can thus set a lowest common denominator for any activity. This breeds a degree of

conservatism that makes it difficult to address some of the radical changes that APEC, particularly at the level of the Leaders' Meeting, proposes to implement in the region.

Funding of Research and Implementation Activities.

APEC has very limited centralized funding. It generally relies on its members to separately finance its initiatives. Occasionally, it allocates small grants from a central fund to outside bodies or consultants to conduct research for a Working Group. By the standards of most international bodies, its funding (based on annual contributions by member governments) is minuscule. The effect is to place the burden of interaction on a proliferating network of officials in the agencies of those governments that have a particular interest in a program, creating a decentralized and perhaps too large project base. A further disadvantage is that topics widely acknowledged to be of importance in APEC, such as development of small businesses, tend to fall between the cracks.

The relevant departments of U.S. government agencies that lead APEC activities, State, Commerce, and USTR, are placed under severe financial strain to maintain adequate U.S. participation. Travel burdens on key officials clearly have become excessive, with too small -- and diminishing -- internal budgets to support them in their responsibilities.

What APEC Does -- or Can Do -- Well

In light of the above realities, what can APEC do that would warrant not only the current level of activity, but increased U.S. governmental resources and support? There are five main areas where APEC has a strong existing role or potential role.

- *It broadens and deepens the engagement of APEC member governments in implementing policy changes, particularly trade and investment liberalization.*

A number of APEC issues often concern domestically-oriented agencies and constituencies. APEC draws these individuals into the

international arena. It channels information down to levels in their bureaucracies that need to understand the changes taking place (such as Uruguay Round implementation) and how to adapt “best practices” in dealing with them. In many cases, bureaucrats and political leaders find it easier to implement change if they can cite these practices and the endorsement of an international body such as APEC in dealing with them.

- *It identifies specific impediments to the progress of open regionalism and economic liberalization so that they can be better addressed regionally and by individual members.*

This year, APEC commissioned PECC to undertake a survey of trade and investment impediments throughout the region. PECC has collected much of the data and the initial drafting process will begin next week. (In addition, PECC will survey existing liberalization commitments by APEC members.) An ongoing and independent review of the extent of the impediments and progress in reducing them would help to achieve the liberalization objectives in APEC.

- *It provides a forum for multilateral investigation of key issues in economic sectors and ways to address trade and investment impediments in each of them.*

Impediment reduction is not simply a matter of changing regulations and setting targets. Even if the officials of the “offending” government want to reduce impediments, it is often difficult for them to do so -- and in a confrontationist negotiating environment it is often nearly impossible. “Research” in APEC is a subtle but effective way of arriving at solutions to impediments rather than through the spotlight of high stakes negotiations. APEC Working Groups in sectors such as transportation and telecommunications can be especially effective in this regard. The disadvantage, one that is of special concern to U.S. policymakers with a quick-results orientation, is that the self-imposed deadlines of formal negotiations do not work. This is a more gradual process by which progress is measured incrementally, not in single, outstanding historic agreements like NAFTA or the WTO.

- *It acts as a crystallizing point for major projects and initiatives.*

Not only are the Working Groups charged with implementing liberalization measures, they also pursue opportunities for cooperation in specific projects and programs. These may relate broadly to infrastructure development or narrowly to individual pilot projects involving the private sector. In either case, they provide a further stimulus to the type of "regional" thinking that should serve as the basis for long term planning by APEC governments.

APEC should take the lead in the coordination and implementation of more regional projects and action agendas. Although its small budget limits it in the implementation of major projects, it has the potential to provide leverage and act as a crystallizing point for funds from governments, the private sector, and other international bodies.

- *It establishes a region-wide policy dialogue between the private sector and governments.*

Relatively few opportunities arise for sustained discussions at the regional level between the private sector and governments either on sectoral issues or, more broadly, in trade and investment policy development. APEC has been usually receptive in this regard.

It is this latter feature, demonstrating the utility of APEC to the private sector, that I would like to describe next, citing some specific examples.

Cooperation Between APEC and the Private Sector

Although abstract policy issues often appear to be separate from practical business ventures, the interaction between the two is close in cases where technologically complex infrastructure is being planned, large and expensive investments must be made, or major shifts in the structure of an industry must be assessed. In such cases, policy makers find that they have little recourse but to consult industry experts as a key source of information. Clearly, this is a sensitive issue and has to be

approached within a neutral environment. APEC looks for ways to draw upon the broadest possible base of industry advice and it often uses PECC to organize the process.

A recent example of this occurred last month here in Washington. In a meeting that should become a model for APEC, the ministers of transportation from the member economies gathered to address key issues in the growth and development of the regional transportation system. A critical part of the discussion involved direct participation by senior executives of the leading transportation companies in each of the participating economies -- over 200 business leaders in all -- facilitated by the Department of Transportation and the PECC Transportation Group. The result was a frank and useful exchange which was skillfully chaired by Secretary of Transportation Pena on the first day. A second day APEC-PECC Industry Forum added further breadth and detail to the private sector viewpoints. Over 50 U.S. companies participated in this discussion and had the opportunity to meet privately with ministers and their delegations. The response from the companies was overwhelmingly positive.

Similarly, in the area of telecommunications APEC has encouraged PECC to use its observer role to organize regular interaction between APEC and businesses. Two such meetings with APEC have taken place so far this year, one in Vancouver and the other in Seoul with APEC telecommunications ministers. A third meeting is planned during an APEC telecommunications conference in Shanghai in early September. The industry response, particularly in the United States, has been uniformly enthusiastic.

These are more than just "getting to know you" meetings. During the APEC Transportation Ministerial discussions, for example, Federal Express CEO Fred Smith had the opportunity to present his case for the separate regulation of passenger and cargo traffic in the Asia-Pacific and for a more comprehensive "open skies" approach to air rights agreements. His remarks prompted a series of questions from ministers and a frank, informal discussion among them that would not have been generated otherwise. It is this type of catalytic impact from the private sector that can

both assist policy dialogues at very senior levels of government in APEC while bringing real world perspectives to bear on the deliberations.

Current or Prospective Progress in APEC: Examples from Joint Activities

Trade and Investment Liberalization

Clearly, the Bogor Declaration by the APEC Leaders has become the organizing focus for nearly all APEC activity. As others have described, trade would be broadly liberalized in the region by 2010 / 2020. I cannot predict the specific progress that will be made in this area by the time of the ministerial in Osaka, but it is possible to describe the general structure of the report APEC has asked PECC to provide for this part of its work. It is hoped that the PECC surveys will help create a foundation upon which to build the Bogor liberalization process. Separately, the PECC Trade Policy Forum has provided APEC with detailed recommendations as to how the Bogor objectives might be successfully implemented.

APEC Impediments and Liberalization Mapping Project

APEC has commissioned two significant “mapping” projects in preparation for the Osaka ministerial. The first will provide a review of the liberalization achievements of each APEC economy. The second will provide a study of the trade and investment impediments yet to be addressed by APEC economies.

They have been dubbed “mapping” projects because they will give APEC a clear indication of where it has been, where it is now in the liberalization process, and where it must go to achieve the vision set down by APEC Leaders in Bogor last November.

For the liberalization project, PECC will draw on multilateral liberalization commitments through the Uruguay Round, any sub-regional commitments and additional unilateral liberalization measures made by APEC economies. PECC is using much of the information collected by APEC under its ongoing transparency and trade facilitation projects. This year APEC embarked on an additional transparency exercise which provides the core of the latest unilateral liberalization commitments. Each APEC economy has provided its deregulation and liberalization commitments, many of which form accelerated action following the Uruguay Round.

This project will provide an analytical overview by each APEC economy. APEC has committed to continue providing its unilateral liberalization commitments and it is expected that this mapping process will become an annual exercise.

As noted, PECC also is carrying out a thorough review of the trade and investment impediments in each APEC economy. Since this is sensitive information for some APEC economies, APEC has asked that this data not be descriptive of impediments in each one by name. Rather, the project will analyze the impediments by other benchmarks such as sectors, commodities, services, and perhaps by type of economy .

PECC researchers have followed up a wide range of sources including international, national and unofficial sources. In some areas such as technology and services, the impediments are not well documented. PECC is likely to make recommendations on improved data collection.

From the project, APEC Ministers and officials will gain a clear picture of the task ahead for the proposed APEC Action Agenda. It is expected that the analysis will give officials some objective means to prioritize the types of impediments which must be addressed first and the timetable which should be set in train to eliminate these barriers.

The PECC team includes some of the top analysts from the region and private sector representatives. They will also consult with the Pacific Business Forum. The report is due at the end of August.

Telecommunications Policy

Progress by APEC with demonstrable benefits to industry and consumers is more likely to be forthcoming over a shorter time frame in areas of facilitation and development cooperation. Industry has been especially interested in the telecommunications policy activities of APEC. The APEC Telecommunications Working Group, following the recent meeting in Seoul among the ministers of telecommunications, has given priority to areas that are of particular interest to the industry such as guidelines for trade in international value-added network services (IVANS) and the harmonization of procedures in equipment certification.

Regional Labor Markets and Human Resources

A recent PECC report on regional labor markets noted that, "on an unprecedented scale, Asian workers are on the move." China has the largest pool of excess labor supply, having reported that more than 80 million Chinese peasants have left their villages to find work. On a smaller scale with different parameters, a labor surplus is looming also in Japan because of the economic downturn. By contrast, other economies such as Hong Kong, Malaysia, Singapore, and Thailand are projected to suffer labor shortages. As a result of these labor imbalances, the movement of human resources has become a matter of urgent concern in APEC alongside other fundamental issues of training and education.

It is encouraging to see APEC moving to address these issues in cooperation with PECC. The development of a joint data base is under discussion between the two bodies and likely to be implemented, as is coordinated work on problems of temporary labor migration in the region. In recent years, the United States has become acutely aware of Asian immigration, both legal and illegal, so we do share a strong interest with the Asian economies in addressing these concerns.

Science & Technology Applications

A meeting of APEC science and technology ministers is planned in early October. We do not anticipate a major initiative from that meeting, but it should lay the groundwork for substantive work by the ministers in Korea and Australia over the next two years which could be of interest to the private sector.

APEC has given increasing attention to ways of sharing practical applications of science and technology. In Vancouver this year a joint APEC - PECC conference on the development of cleaner technologies gave industry participants from the United States and other economies a chance to show that they have much to offer the APEC region in this field. Although not unique to APEC, this type of activity represents a productive use of the APEC network in a particular sector, in this case the growing market for environmentally sound products and processes in Asia.

Areas Not Adequately Addressed

In spite of the progress being made in these and other areas, PECC and other private organizations have urged APEC to expand its efforts in a few critical areas that we believe are as yet not adequately addressed. The APEC agenda already shows promise in meeting some of these concerns.

Capital and Financial Market Reforms

The foundation of Pacific economic development remains access to capital and investment. In spite of surging foreign investment and burgeoning financial markets, the region has yet to adopt financial reforms that will enable it to efficiently marshal its vast pool of savings. The task of addressing this issue is being led by finance ministers from the APEC economies who have met twice in two years. PECC has launched a parallel private sector program on capital and financial market reform. It has met in Shanghai, Tokyo, and Chicago, with a fourth meeting scheduled in September in Beijing.

Against the backdrop of limited progress in the GATS negotiations in Geneva, it is important to recognize that similar challenges would exist for financial service reforms under the auspices of APEC. The process of reform would be different, too, conforming to the concerted unilateralism espoused by many APEC officials.

Four major financial markets issues have emerged that are critical to economic growth in the region: 1) financing infrastructure; 2) developing domestic capital markets, 3) developing effective financial markets environments, and 4) creating APEC Investment Principles. Each of these is a large and multifaceted "umbrella" issue and cannot be addressed in detail here. Let me focus instead on the last one, a foreign investment agreement, which has been a special concern in PECC for the past three years.

The U.S. Committee of PECC strongly supported an effort by APEC to undertake a model investment agreement on the assumption that it would take many years to complete and that, if voluntary, it would be compatible with the high standards of other U.S. initiatives in this area. Instead, the agreement last year by APEC was arrived in too great haste and fell short of the expectations of the U.S. government officials who reluctantly and conditionally agreed to it rather than remain isolated on the issue. Some PECC member committees, particularly the United States, were similarly disappointed. The existing APEC agreement on investment principles is a clear example of the "lowest common denominator" approach that dilutes the impact and effectiveness of APEC.

Agriculture Trade and the Regional Food System

Glaringly absent from the list of APEC Working Groups is Agriculture. This is perhaps to be expected since the structure of the current Working Groups was forged during the heat of the agriculture debate in the Uruguay Round and the topic was viewed as too contentious to take up in a separate context in APEC. Nonetheless, there is much that can be done in this field that will benefit U.S. companies, American consumers, and the APEC economies. The Asia-Pacific region has become one of the most

diverse and dynamic food product markets in the world. Changes are being driven by growing consumer incomes and access to new consumer products and ideas. The Asian food market is expected to reach US\$700 billion by the year 2000 to supply an urban population of 1.2 billion. U.S. bulk and non-bulk agricultural commodity exports to Asia total more than \$16 billion.

The most productive, immediate successes by APEC in this sector are less likely to be in the contentious issues of liberalization and more in the direction of "facilitation" and "development cooperation" in which regulatory environments are not excluded, but are treated as part of a larger picture of changing consumer demands and market development. PECC has thus begun to develop the program of its annual Food and Agriculture Industry Forum with the aim of introducing new ideas and information from the food and agriculture sector to the APEC Committee on Trade and Investment (CTI).

Air Transportation

Explosive economic growth in the Asia-Pacific will propel the region to the highest increase in air passenger volume of any world region over the next 20 years. There are immense opportunities for the aviation industry, but also challenges from inadequate infrastructure and, not least, the current system of bilateral regulation of market access.

One outcome of the recent meeting of the APEC Transportation Ministers in Washington was the creation of a Ministerial Working Group to produce an options paper for more competitive air services in the Asia-Pacific region. In the hope of facilitating and perhaps accelerating this process, several PECC national committees convened a Pacific Air Transport Conference last week in Singapore comprising representatives from 17 regional airlines as well as numerous air transport experts and participants from other bodies such as the WTO and the OECD. The Chair of the newly formed APEC Ministerial Working Group, Minister Mah Bow Tan of Singapore, addressed the meeting and noted that the discussions could help shape APEC deliberations in this area. A report from the

meeting is being developed for APEC and other international bodies which will present options on new approaches to air rights agreements.

Conclusion

It is useful for independent observers to offer assessments of APEC as an international organization from time to time, but the standard of progress should not be raised too high, too soon. Examples can be cited to suggest that progress either is or is not being made by APEC. In the end, patience is required. We must accept the fact that no international organization of such diverse membership can make progress equally in all areas. Delays and setbacks on some fronts should not be the cause for overall discouragement.

Progress by APEC requires that there be public declarations and commitments by ministers and leaders plus substantive work "in the trenches" by the senior officials, the CTI, and the Working Groups, often stimulated by regular meetings of ministers in charge of specific sectors. The APEC ministerial meeting and Leaders discussions in Osaka this November serve as a necessary annual deadline against which progress in these and other areas will be measured.

Progress may appear slow to most observers. But by the standards of most newly-formed international bodies, APEC has done well to move this far on such a broad front. It has been able to draw upon the participation and support of U.S. businesses as a result. It will be equally necessary, as the specific proposed stages for implementation of the Bogor Declaration begin to emerge, for the U.S. Congress to remain fully engaged in this process as well. Again, I wish to congratulate both Chairmen and your colleagues for exploring these issues and for giving me an opportunity to address them.

Publications and papers by PECC authors, used in the development of this Statement, are gratefully acknowledged.

Attachment:
PECC: The Observer Relationship with APEC

PECC is an international organization founded in 1980 to fill the institutional vacuum that existed for economic dialogues among governments and the private sector in the Asia-Pacific. Through joint efforts of the Prime Ministers of Australia and Japan, with private sector leaders in several Pacific Rim economies, the PECC began a series of projects on key trade and investment policy issues for the region.

PECC has expanded in membership until it now comprises member committees in 22 economies of the Pacific Rim, (the most recent Associate Member being Vietnam). Each economy is represented by a group of prominent individuals in the business, government, and policy research communities.

During the 1980s, PECC strongly urged Asia-Pacific leaders to form an inter-governmental consultative body for economic issues. The success of this effort, and the political path-breaking role of PECC in demonstrating the utility of regional dialogues, underlies PECC's official observer status in APEC. It is the only non-governmental body to serve in that role. Since 1989, PECC and APEC have developed a close working relationship through their respective Secretariats in Singapore. Sensitive issues to be addressed in APEC sometimes require inputs and analysis that are more easily addressed by the independent PECC network of businesses and think tanks.

Key organizational features of PECC are: (1) a decentralized structure comprising offices in each member economy, (2) coordination through a Secretariat in Singapore, (3) project work assigned according to sectors and special topics, (4) financial support through a common administrative fund to which governments contribute according to a formula based on economy size and wealth, and (5) regular regional meetings at task force, administrative, and leadership levels. The similar structure and organization of APEC, which also locates its Secretariat in Singapore, adds to the institutional compatibility of the two bodies.

1995-1996 Cooperation and/or Joint Activities with APEC

"Mapping" Impediments to Trade & Investment

At the request of APEC Senior Officials and the Committee on Trade & Investment, PECC is developing a baseline survey of all barriers to international commerce in the region. Additionally, PECC will provide a survey of existing commitments to liberalization by APEC members under the Uruguay Round and other agreements.

Science & Technology

In April, PECC and APEC jointly sponsored a conference concerned with policies toward and applications of cleaner technologies. The two will also jointly develop a data base of science & technology indicators in member economies.

Human Resources

APEC and PECC will jointly develop a survey of regional labor markets, with emphasis on labor migration, and will cooperate to examine training and education issues in member economies.

Economic Forecasts

PECC's *Pacific Economic Outlook*, with individual sections on each APEC economy, is used extensively by APEC in its economic analyses and internal reporting of regional economic trends and conditions.

Transportation

PECC coordinated region-wide participation by the private sector from most of the APEC economies in the first APEC Transportation Ministerial meeting in June, 1995, including an Industry Forum.

Telecommunications

The APEC Telecommunications Working Group regularly asks for reports and comments from the PECC Telecommunications Roundtable. In February, APEC, the OECD, and PECC jointly sponsored a symposium on information infrastructure. PECC will sponsor an Industry Forum during the 1995 meeting of the Working Group in Shanghai.

Television and Media

The APEC Working Group on Telecommunications also requests policy inputs from a PECC policy network of television and media executives concerning issues affecting the growth of media-based communications in the Asia-Pacific.

Food and Agriculture

PECC has developed its Food & Agriculture Industry Forum in consultation with APEC officials to facilitate trade in food products, including steps to add transparency to regulatory environments.

Energy

The PECC Minerals and Energy Forum interacts with the APEC Energy Working Group with which it is developing plans for a survey and analysis of region-wide energy policies.

Capital and Financial Market Reform

PECC works with APEC planners to address financial market issues and coordinates the PECC forums and research programs with APEC ministerial initiatives in this area.

Small and Medium Enterprises

PECC has supported extensive expert testimony to an APEC Working Group and Specialist Meetings in support of initiatives to support the development of small and medium enterprises.



EMBASSY OF AUSTRALIA
WASHINGTON D C

July 17, 1995

The Honorable Doug Bereuter
Chair, Subcommittee on Asia and the Pacific
Committee on International Relations
United States House Representatives
B358 Rayburn Building
Washington DC 20515

Dear Mr Bereuter,

The Government of Australia appreciates the opportunity to express its views on Asia Pacific Economic Co-operation (APEC) to the House International Relations Committee, Subcommittee on Asia and the Pacific.

Australia has worked closely with the United States on free trade in the Asia/Pacific region and we welcome this chance to present to the House of Representatives this speech by Senator Bob McMullan, Minister for Trade, and a background paper which sets out the Australian Government perspective on APEC.

Yours sincerely,

Don Russell
Ambassador



STATEMENT

BY

THE GOVERNMENT OF AUSTRALIA

HOUSE INTERNATIONAL RELATIONS COMMITTEE

SUBCOMMITTEE ON ASIA AND THE PACIFIC

APEC HEARING

JULY 18, 1995



AUSTRALIA'S APEC AMBITION

Speech by the

**Minister for Trade
Senator Bob McMullan**

at the

**AUSTRALIAN INSTITUTE OF INTERNATIONAL AFFAIRS
CONFERENCE:
*"FUTURE DIRECTIONS FOR APEC"***

Sydney, 27 June 1995

- I welcome the opportunity to speak to, and clarify, Australia's plans and objectives for APEC this year
 - specifically in respect of the most fundamental commitment made by Leaders at Bogor
 - : to achieve free and open trade and investment.
- It has been frustrating to observe the misunderstandings and misinformation about APEC which have proliferated in public comments from political figures, the media and some academic commentators in recent times.
- However, the Government and its representatives have been constrained from responding by a desire to be effective internationally
 - and advance Australia's interests in APEC deliberations without prematurely disclosing our priorities and preferences in a way that adversely affects our objectives.
- There has been confusion, in particular, about Australia's position on so-called discriminatory trade arrangements
 - about the US position as it relates to APEC and Australia's attitude in relation to it
 - and about the role of Japan as Chair of APEC this year and Australia's position in relation to that.
- There are many aspects of detailed developments within APEC - other than implementation of the free trade and investment commitment - that warrant serious consideration, but they will need to be subjects for another day.

- In fact, even the areas of my primary attention today are too complex to be addressed in one speech
 - or at least one speech that anybody could bear to listen to
 - therefore, in addition to this speech, I have distributed a background paper on Australia's position for this year and the next year or two
 - : so, in the course of this speech, I will highlight the themes and priorities from within that broader paper.
- To some extent, I must acknowledge that such a comprehensive clarification will not strengthen Australia's position in APEC discussions this year.
- If one could look at these discussions in isolation, it is arguable that continuing to keep our cards close to our chest might be in the national interest
 - but there are factors that outweigh these considerations.
- Firstly, the inaccurate reports and misrepresentations of Australia's position which are presented in Australia by the media, the Opposition and others filter back to the region
 - at the very least, they cause confusion within the region about our position
 - and, to some extent, undermine our objectives.
- While it should be possible for people to get their facts right without the need for the comprehensive outline
 - I hope this approach will constrain the capacity for people to get it so comprehensively wrong.

- The second and more attractive of the two reasons is that within a democracy it is always necessary to strike a balance between openness and effectiveness
 - first, because in a democracy citizens have the right to know as much as possible about the positions their government is taking on their behalf
 - and, second, because the underlying driving forces of the democratic imperative is that decisions tend to be better the more people have an opportunity to contribute to their development.
- It is important to remember that Australia doesn't own APEC
 - Australia can't dictate to APEC
 - but Australia does have some capacity to influence the outcomes
 - : perhaps because of our role in initiating APEC
 - : and in being an innovative and active participant in APEC's evolution, we have a capacity to influence beyond our relative size within the region.
- Last year's Bogor Declaration is the centrepiece around which APEC activities for 1995 and subsequent years will revolve.
- In assessing the prospects for the Osaka meeting in November, can I ask you to recall one thing
 - this time last year, how many of you thought we could successfully achieve a commitment by APEC Leaders to free trade and investment in the region

: which was announced in Bogor in November 1994.

- One of APEC's staunchest critics said in August and September last year that, quote, "...APEC is a flawed concept which will not work..." and "...APEC is a harmless talk shop..."
 - while another commentator said last September, quote, "...I think the one issue that will create a problem is the EPG recommendation that we go for free trade in an open, non-discriminatory way by 2020. I suspect that when you confront the East Asians and the South-East Asians with targets they will almost certainly back off...".
- But, having achieved beyond the ambitions of the cautious, we now have a need to implement that Declaration.
- So how is Australia going about this task
 - and what are we advocating as the process by which the region should go about this task?
- The Bogor Declaration sets down agreed goals for all the member economies
 - that is, free trade and investment within the region by 2010 for industrialised economies and 2020 for developing economies.
- But what we have is a group of economies all starting from different positions but agreeing to head towards agreed and ultimately common goals.
- It is the Australian Government's judgement that there is no will within APEC - but also no need - to proceed to these goals from each country's starting point in an identical way.

- There is no problem if each economy within APEC pursues its own road to Bogor
 - but all the other economies must be assured that each of their partners is proceeding proportionately.
- There is also no will to enter into full blown GATT-style negotiations
 - in part, because some economies are still bedding down what, for them, were difficult Uruguay Round outcomes
 - and in part because APEC is premised on a cooperative, non-confrontational philosophy.
- From these assumptions, Australia has fashioned a uniquely APEC formulation
 - one that many people have had difficulty understanding
 - : including, initially, some within APEC
 - : and, disconcertingly, some within Australia.
- This is a concept which has come to be known as "concerted liberalisation"
 - a concept which will govern the tabling of individual country plans for liberalisation
 - and which, together with the standstill achieved last year, and the parallel liberalising process of collective action in appropriate areas, is the formula to take us from where we are to where we want to go.

- The standstill is an underestimated element of the Bogor decision.
- It essentially provides the cap, or limit, on barriers in our region
 - and the liberalising process of individual action plans based on concerted liberalisation plus collective action constitutes the downward pressure on barriers to trade and investment in our region.
- As one of the most open economies in the region, each step towards liberalisation is a step towards greater opportunities for Australia.
- Of course, we have to be good enough to take advantage of these opportunities
 - but, as we increasingly internationalise the Australian economy, we become more and more capable of seizing at least our share of the opportunities, if not more.
- So, what does "concerted liberalisation" mean?
- It is the principle governing the process by which each country will submit in 1996 a national action plan to implement their Bogor commitments.
- These action plans will be developed within agreed guidelines covering important issues such as
 - the comprehensive nature of the Bogor commitment
 - : and, therefore, the 'no exceptions' approach needs to be reflected in the plans

- and the fact that while we don't all need to finish the liberalisation process at the same time, we all need to start at the same time
- : and continue to open up our economies in a manner proportionate to our Bogor commitment.
- As I have said, under this approach each member of APEC would set down, in an individual country action plan, how and by when it intends to reach the Bogor commitments of free trade and investment across the various sectors and issues.
- So there is no diminution in the trade liberalising momentum established last year at Bogor. we are keen to see these plans tabled by the 1996 Leaders meeting.
- When we first put forward this proposal, it seemed to us, and to those we proposed it to, as ambitious as the Bogor Declaration appeared when I first discussed the idea with President Suharto in February last year.
- But, with strenuous political and diplomatic effort throughout the first half of this year, we are now satisfied that the general thrust of this approach is developing broad support within APEC
 - and that the 1996 deadline, while not yet agreed, may also be supported.
- We see these individual country action plans dealing with tariffs, of course, but with more than just tariffs.
- Australia is looking forward to action plans in the area of investment, non-tariff barriers, export subsidies and services.

- Once these individual action plans are submitted, 1997 will become a key year in which the review of the action plans takes place.
- This is where the concerted element of the liberalisation comes in, as discussions within APEC take place to ensure that there is reasonable proportionality and reciprocity in the individual country action plans
 - they don't need to be the same. they just need to be clearly proceeding at an adequate and balanced pace down the road to Bogor.
- The impact of peer pressure on countries in this process should not be underestimated
 - as it should provide countries with confidence that others are proceeding with liberalisation.
- I can discuss the detail of collective action more on another occasion
 - but, in essence, this is a process of APEC members acting together to reach agreement on collective mechanisms to achieve trade liberalisation and facilitation.
- There are some areas where, obviously, collective action is the only way of making progress
 - and others where it may seem a most appropriate way, for example in the areas of
 - standards
 - customs

- competition policy; and
- mutual recognition agreements
- : such as in the area of professional services.
- This is not really designed as a comprehensive list, merely an indication of the nature of the issues that will need to be dealt with by a program of collective action
 - and there is still some way to go to determine what a commercially relevant program of collective action might look like
 - but I am confident that one can be developed.
- Therefore, we seem to be well on track to achieve our core objectives by Osaka.
- So, against that background, let me address some of the key misunderstandings.
- Firstly, the never ending saga of whether Australia is for MFN or a preferential arrangement.
- Australian academics, some of their acolytes in the media, and, from time to time, the Opposition, are fascinated by this issue
 - I am delighted to say, nobody else is.
- It is not an issue that has taken more than a tiny percentage of the time of officials in their dialogues
 - and it is not an issue that has been initiated by any representative of any other country in discussions with me

:0

: not last year, not this year, not even in the face of the fevered imaginings of the Financial Review or the Sydney Morning Herald, or any of our academic institutions.

- Second, it is not an issue that has any sympathy as a focal point of analysis from Australian exporters.
- In fact, the exporters are in tune with the Government's approach
 - in a newspaper article yesterday, the Chief Executive of the Australian Dairy Industry Council wrote in respect of APEC. "...we should keep alive the possibility of a full-scale free trade agreement negotiation..."
 - BHP and the NFF have written to me along similar lines.
- Third, no proposal for a preferential free trade agreement within APEC has been put on the table by any APEC member in any of the formal or informal meetings.
- But let me make Australia's position clear.
- Our distinct preference is for an MFN approach
 - it always has been, it continues to be, and every proposal we have put forward has been consistent with MFN.
- All we have said is, if at the end of the day our preferred position is not acceptable, and some alternative proposition comes forward which is in Australia's interest and the regional interest and doesn't undermine the multilateral system, we won't rule it out.

- Let me also make it clear that it is our view that concerted liberalisation is much more likely to be conducive to an MFN outcome than any other
 - although it doesn't prejudge the issue and doesn't require us to prejudge that issue.
- Which brings me to the breathless speculation about Australia's proposal that the Japanese commitment to MFN - included in the recent paper which it presented - should be deleted from that paper.
- Let me make our position, as we have stated it publicly and privately to Japan and others, quite clear.
- While inclusion of a non-discrimination principle does not cause Australia any problems, we do not believe it is necessary to confront the issue of whether APEC should proceed on the basis of MFN at this stage
 - it will be divisive, and a consensus solution, is unlikely.
- Therefore, there is no need to include this in the 1995 principles.
- Depending upon how we progress under the individual action plans, and the collective action proposals, we may never explicitly need to confront it at all.
- I am sorry if change and nuance is too much for people who want to be able to argue all things to all people and agree with everybody
 - the people who promise MFN liberalisation abroad, but still tell industries at home they are considered strategic industries and might get special treatment.

- We have also had the never ending speculation that somehow the United States will not accept concerted liberalisation and that they have, in some way, reduced their commitment to APEC
 - or perhaps abandoned it in preference for interests in the Americas or Europe.
- It should be obvious that if Australia is capable of advancing its trade interests on more than one front. surely the United States will be...and it is.
- In my discussions with representatives of the United States at the most senior level possible in the trade area. I am convinced
 - one, that the US remains committed to APEC
 - two, that the US can and, if we make satisfactory progress, will be able to balance their real interests and concerns with an approach that incorporates individual country action plans with a review mechanism, a standstill, and parallel collective action in areas of priority
 - and three, that the US, like Australia. and I suspect all other countries. will give away nothing for nothing
 - : but there is nothing inconsistent with a concerted approach to liberalisation and that principle.
- There has also been some repetition of the view that Australia, alone or with other countries, is concerned about Japan's leadership of APEC for this year in the lead up to Osaka, or is in some way failing to cooperate with Japan

- this is news to me and I am absolutely certain it would be news to the Japanese Government with whom we have been in very close and continuing consultation as recently as this month in Canberra
- as well as at a series of meetings and bilateral discussions in Japan
- whatever past concerns anyone else may have had, there is no doubt that Japan is now playing a very positive leadership role within APEC.

Conclusion

- APEC's current development is the result of contributions by all its member economies.
- But Australia can feel proud of the contribution it has made since the initial Ministerial Meeting was held at its initiative.
- We have consistently been among those countries which have been willing to take risks to promote fresh initiatives within APEC.
- And 1995 is no exception.
- I hope my comments today, along with the background paper I am circulating, will help dispel the myths, misunderstandings and untruths currently doing the rounds
 - and provide a greater understanding of the Government's underlying commitment to make APEC work to maximise economic gains for Australia and the region.



AUSTRALIA'S APEC AMBITION
Background Paper

Minister for Trade
Senator Bob McMullan

27 June 1995

APEC

BACKGROUND PAPER BY THE GOVERNMENT OF AUSTRALIA

The purpose of this paper is to clarify the state of play in APEC on the most fundamental commitment made by Leaders at Bogor, namely to achieve free and open trade and investment in the region

- and specifically the approach we are taking, why that approach is developing support, and the attitudes of other key APEC members.

The free trade and investment commitment is to be reached by industrialised economies by 2010 and by developing economies by 2020.

The basic challenge for 1995 has been to develop an Action Agenda (or framework) to implement this commitment for Leaders to consider at their meeting in Osaka in November.

We recognise that the free trade and investment goal is an ambitious and challenging vision and the task of putting it into practice is not simple.

When we sat down early this year to consider what the Action Agenda might look like and to review the possible options to implement Bogor, we sought to draw on our successes - and our failures - in multilateral trade negotiations such as the Uruguay Round and other bilateral trade negotiations such as the Australia/New Zealand Closer Economic Relations (CER) Agreement

- along with an assessment of what was politically viable in the Asia-Pacific setting at this time.

We judged that full head-to-head GATT-style negotiations are neither feasible nor desirable in the context of APEC

- such negotiations can deliver excellent results for Australia as the Uruguay Round demonstrated, but we could not pursue it in APEC at this time.

It is neither feasible nor desirable for two reasons:

- first, it would run counter to the cooperative non-confrontationalist approach that characterises APEC activity
- second, a number of APEC economies experienced some difficulty in gaining domestic acceptance for the Uruguay Round result, and therefore it would have been very difficult for them in current circumstances to accept negotiations in APEC.

Specifically, we wanted a new approach for APEC, one that accelerated and expanded the strong liberalisation trends which already existed in the Asia-Pacific region but at the same time enabled APEC to add value and not merely act as a cheer squad on the side

- that is, we wanted a politically realistic approach that would be credible and effective.

We also wanted an approach that was consistent with the WTO and with our interest in starting a new round of multilateral trade negotiations earlier rather than later.

We realised that because of the complexity of the task, there was no single solution to a credible and effective Action Agenda.

The innovative approach initiated by Australia has, as its centre, the concept of "concerted liberalisation".

Essentially it is designed to add value to the liberalisation process already underway in APEC - to accelerate and direct it.

This approach and its place in the Action Agenda is described in detail below, but first it is important to set the overall context of what we see as the key elements of the Action Agenda for consideration by APEC Leaders in Osaka.

THE ACTION AGENDA

The Action Agenda would have the following four major elements:

- guiding principles
- individual action plans based on concerted liberalisation
- a program of collective action
- and a process of review, applying particularly to the individual action plans.

The individual Action Plans based on concerted liberalisation and the program of Collective action represent *the two main implementing mechanisms to achieve the free trade and investment goal*.

The Guiding Principles

We were conscious that in the absence of full blown negotiations it would be necessary to provide discipline and consistency to the liberalisation process by APEC economies.

We are therefore developing a set of 'guiding principles' which we are fairly confident will form a key element of the action agenda.

They include:

****Comprehensiveness** - that is, there should be no exceptions to the coverage of the free trade and investment goal. The Bogor Declaration did not refer to exceptions.

If we were to permit exceptions it would lead to a spiraling down of the free trade outcome as each APEC member carved out their sensitive sectors:

- there was no agreement on exceptions in the Uruguay Round for this reason, and we believe there should not be in APEC either
- this position is understood and has not been challenged, at least not overtly, by other APEC members.

The NFF has recently released a thoughtful and balanced document stressing that agriculture should not slip off the agenda. We have been working closely with them to ensure this does not happen.

****Timing** - APEC members should begin liberalising at the same time, and should contribute continuously and substantially throughout the implementation period.

****Balance** - implementation of the Bogor commitments should proceed in such a way as to ensure a balance of members' interests in terms of sectors and issues.

****WTO consistent** - APEC liberalisation will have to be undertaken in a way which is consistent with, supports, and strengthens the multilateral framework of rules and disciplines under the WTO.

Individual Action Plans based on Concerted Liberalisation

Under this element, each APEC member would set down by a specific date in an individual Country Action Plan how and by when it intends to reach the Bogor commitment to free and open trade and investment across the various sectors and issues.

So that there is no diminution in the trade liberalising momentum established last year at Bogor, we are keen to see these plans tabled by the 1996 Leaders meeting.

To take tariffs as an example, to describe how the individual action plans based on concerted liberalisation would work, APEC members would indicate in their individual action plans how fast they will bring tariffs down over the period to 2010 or 2020

- quotas and export subsidies would be covered in a similar way.

These reductions would be implemented in accordance with the general principles, and with more specific mechanisms still being developed on matters such as timing.

With services, for example, individual action plans should indicate the time by which remaining impediments to trade will be removed.

Review

An important component of the individual action plan process will be the opportunity for members collectively to establish guiding principles and specific disciplines, and then to review action plans of other members to ensure that real progress is being maintained and that all members are contributing proportionately.

This is where the 'concerting' takes place.

The impact of peer pressure on countries in this process should not be underestimated.

The review process provides a degree of transparency and confidence to countries that others are proceeding with liberalisation.

This is important to Australia, as it will enable us to check that others are providing broadly equivalent and reciprocal liberalisation, and that there is balance across the board.

The review process would also apply to the collective action agenda.

Under our preferred approach, we believe that 1997, should be the key year for this initial review/consultation stage.

Preferably, implementation of the action plans would commence as soon as the 1997 consultation phase is complete. (Of course, several countries have already undertaken major liberalisation initiatives since Bogor and others will do so).

We also envisage that APEC Leaders and Ministers will monitor and annually review the implementation of the Action Agenda to ensure that it is remaining on track to achieve the Bogor commitment

- as well as adherence to the Bogor standstill commitment.

Collective Action

We are conscious that, in tandem with the individual action plans based on the concerted liberalisation approach, a range of important issues will best be progressed by APEC members on the basis of a program of collective action

- these generally include issues such as standards, together with other rules-related areas such as competition policy and intellectual property.

We are making strong progress in some of these areas.

In the case of standards, for example, we expect by Osaka to have made substantial progress towards pilot multilateral mutual recognition agreements in a couple of priority areas including food products.

In the case of customs, we expect to deliver a common customs action plan which sets out target dates for the simplification of customs procedures.

We are still at a very early stage in considering what other areas for liberalisation might best be achieved through collective action.

We are currently looking at the prospects for a collective action approach in a range of areas, including

- in some areas of **trade in services**, for example, a network of bilateral arrangements for the recognition of professional qualifications in priority professions
- **trade and competition policy**, for example, development of an APEC statement of principles on linkages between competition and trade policy
- **deregulation**, for example, a work program to accelerate further deregulation
- **energy**, for example, development of a framework to remove impediments to investment in electricity infrastructure.

In sum, therefore, an Action Agenda package involving the two implementing mechanisms for liberalisation of concerted liberalisation with the right guidelines and review process together with an agreed collective action agenda would, in our view, represent a powerful and credible way forward for APEC.

As set out above, we are hopeful that it will develop as the centerpiece for the Osaka Leaders meeting.

When we first devised this approach and set the 1996 tabling deadline, we believed we were being very ambitious.

And we were. But with strenuous diplomatic efforts throughout the first half of this year, we are now satisfied that the general thrust of the approach has fairly broad support and we are hopeful that agreement on the 1996 deadline, while still not certain, has a reasonable chance of being achieved.

But we are not there yet. There is a great deal of detailed work to be undertaken before the November Osaka meeting on the guidelines for the individual action plans and on a commercially useful collective action program.

For example, in respect of the individual action plans as they relate to tariffs, we still have to work out more precisely what progress is required by our key partners before we can determine how and when we will reduce our tariffs

- this matter and the setting of our priority areas for tariff reductions by trading partners will be the subject of intensive industry consultations.

In the area of collective action, we will be seeking to build up a commercially relevant group of areas of interest to Australian business

- for example, making it easier to secure business visas in the region.

Dispute Settlement Mechanism

One other lesser element which may be included in the Action Agenda is the establishment of an APEC dispute settlement mechanism

- this issue still needs to be considered further before the Osaka meeting.

We would see a dispute settlement process which provides a range of options for the use of APEC members on a purely voluntary basis, including the opportunity to raise problems and air grievances within APEC forums, have consultations, and enter into mediation processes.

Uruguay Round Acceleration

Separate from the Action Agenda, APEC Leaders may also consider a set of actions by APEC members to expand, deepen or accelerate the Uruguay Round outcome.

We have suggested that APEC members choose from a menu of options covering the broad range of the Uruguay Round agreement.

This idea has wide support among APEC members.

We believe that individual actions to accelerate, deepen or expand the Uruguay Round outcome by APEC countries would

- represent a tangible and collective expression of support for the multilateral system and future global trade liberalisation: and
- represent a down payment on APEC's own program of regional trade and investment liberalisation.

In effect, though, the package to advance the Uruguay Round outcome will undoubtedly be modest. The focus of our efforts and those of other APEC members will inevitably be upon the trade liberalising mechanisms - the individual action plans and the program of collective actions.

The Players

While Australia has been playing, and will continue to play, a key role at the leading edge of APEC's development, we are not alone

- we are working with many countries in the region such as New Zealand, Indonesia, Singapore, Hong Kong and Chile who share our ambitions for APEC and our approach to developing an Action Agenda.

Indonesia, in particular, has been playing a leading positive role in support of a strong and effective Action Agenda for Osaka

- behind Indonesia's interest in trade liberalisation is the fact that it is already moving to free up its own economy
- and the astute recognition that it can drive its own deregulation faster and gain much more strongly if its own efforts are matched by others in the region.

Furthermore, Indonesia played a critical role last year in securing the historic Bogor Declaration and it is logical that it would wish to be at the forefront in the 1995 follow-up process.

Japan understands fully that it has an international responsibility as this year's APEC Chair to deliver a major and credible outcome.

In our view, Japan has risen to the challenge and at this stage there are no fundamental differences between our positions - a fact readily acknowledged by both sides.

But Japan has bigger, more strategic motivations for taking a strong leadership role in APEC this year.

Japan is becoming more assertive.

It is assuming a higher international and regional profile commensurate with its economic power, and its forthright stance in APEC this year is testimony to this.

The position of the United States in APEC does of course remain important not least because, for Australia, one of the fundamental strategic rationales for APEC is to maintain a constructive US engagement in the region.

Despite speculation to the contrary, the US had made it clear that they are fully committed to APEC

- this was conveyed to Senator McMullan during his meeting last month with USTR Kantor at the OECD
- and it is demonstrated in the US's highly active role in APEC.

In particular, the US is not resiling from the Bogor commitments entered into by all APEC Leaders, including President Clinton, last November

- it is working closely with Japan and Australia and a range of other countries
- and there are more areas of commonality with the US and others than there are differences.

This is not to say that the US does not face difficulties this year.

It does, particularly stemming from the fact that the Administration does not, at this stage, have a "fast track" trade negotiating authority

- but this is a short-term problem, and we are working with the US and Japan and other countries to ensure that their short-term domestic problems do not undermine the development of an ambitious but practical Action Agenda to implement the Bogor Declaration.

The US also faces Presidential elections in 1996, but it is drawing a very long bow to argue that these elections necessarily derail APEC

- elections in major economies are a fact which is often confronted in trade liberalisation processes, and one that we had to face many times in the course of negotiating the Uruguay Round
- the Round did not collapse because of French or German elections
- they represented a challenge for us, but we got around them.

The situation is not dissimilar in the US.

The MFN/Preferential Issue

Much has been made of whether APEC should or should not develop as a preferential free trade agreement and the associated issue of "non-discrimination"

- this is more an issue in the Australian media and academic circles than in APEC meetings where it occupies very little, if any, time of Ministers or officials.

Before pursuing further the issue in relation to APEC, it is important to refer to the clear and unequivocal statement the Government has made on this issue as a matter of general principle to apply to the breadth of our trade policy.

That statement was set out in the document, **Winning Markets**, which was released last week by the Prime Minister.

Our policy as set out in **Winning Markets**, is that Australia's first preference is to pursue trade liberalisation on an unconditional MFN basis.

Nevertheless, on occasions, Australia may also be able to secure better and speedier market access from a preferential regional arrangement than may be possible from following a strict MFN approach. This was the case with the CER agreement with New Zealand.

To put it bluntly, do we tell workers in factories in Sydney that we will not enter into a trade arrangement which could increase jobs just because of an "in principle" stand against preferential trade arrangements?

Do we also do this when our existing approach clearly has wide support among those in Australia who actually trade - both in the business and the rural sectors - as opposed to those who theorise about it?

- by way of example, the Chief Executive of the Australian Dairy Industry Council, in an article in the Financial Review (June 1995) in respect of APEC " we should keep alive the possibility of a full-scale trade agreement negotiation"
- BHP and the NFF have written to Senator McMullan along similar lines.

During the consultations conducted on *Winning Markets* with industry, no major exporter or industry association advocated closing off the preferential option, although it did appear the majority supported MFN as we do.

Winning Markets provides our policy underpinning, and Australia's position in respect of APEC is clear

- our preference is for a "non-discriminatory", MFN based approach.

If there is a will within APEC to proceed with liberalisation on an MFN basis, Australia will not stand in the way. We would welcome such an outcome.

Importantly, no proposal has been put on the table this year in APEC by any APEC member which seeks to develop APEC as a preferential free trade agreement.

One of the advantages of the "coordinated liberalisation" approach initiated by Australia which now has fairly broad support amongst APEC members, is that it is perfectly consistent with a non-discriminatory, MFN-based approach to trade liberalisation.

In fact, it is our view that concerted liberalisation is much more likely to be conducive to an MFN outcome than any other, although it does not prejudice the issue and does not require us to prejudge the issue.

There has been broad acceptance among APEC members that any attempt to force a decision in 1995 on whether APEC, at some time in the future, should adopt an MFN or a preferential approach to liberalisation would be as pointless as it would be potentially divisive.

It is accurate that we wanted the words 'non-discrimination' removed from the Japanese 'non-paper' on a possible Action Agenda

- for the tactical reason indicated above, we do not believe it is necessary to confront the issue. It will be divisive, and a consensus solution is unlikely. It could force countries uncomfortable with committing themselves to MFN at this stage to take up hard-line, inflexible positions.

This would be the most effective way of ensuring we do not have an MFN outcome.

Conclusion

The above sets out the broad parameters of Australia's ambitions for APEC this year.

However, our ambitions do not end there. There is an important relationship between progress within APEC and Australia's objective for further multilateral trade liberalisation.

Australia hopes that APEC's trade liberalising endeavours will help support prospects for a new round of multilateral trade negotiations and shape its agenda.

In fact, if the APEC agenda for 1995 as outlined above is agreed to by APEC Leaders in Osaka, it clearly would give APEC a central role in the determination of the priorities and timing of a new impetus for multilateral trade negotiations.

One of the most important challenges ahead of Australia over the next 18 months, in tandem with the APEC agenda, is to ensure that the WTO Ministerial meeting in Singapore in December 1996 sets an ambitious agenda for continuing multilateral trade negotiations.



BOSTON PUBLIC LIBRARY



3 9999 05983 752 4

ISBN 0-16-052159-9



90000



9 780160 521591